

IN THE UNITED STATES DISTRICT COURT

MIDDLE DISTRICT OF TENNESSEE, COOKEVILLE DIVISION

ILIGHT TECHNOLOGIES,)
Plaintiff,)
)
v.) CASE NO. 2:06-0025
)
FALLON LUMINOUS PRODUCTS,)
Defendant.)

TRANSCRIPT OF PROCEEDINGS
VOLUME VI

DATE: April 27, 2009

TIME: 9:00 A.M.

BEFORE: HONORABLE WILLIAM J. HAYNES, JR.
And a Jury

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A P P E A R A N C E S:

For the Plaintiff: Timothy J. Vezeau
Stephen Price
Melissa Hunter
Bill Ferrell
John Scruton

For the Defendant: Mark Kittredge
Jonathan Rose
Samuel Lipshie
Brandy McMillion
Douglas Sawyer

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W I T N E S S E S:

KEVIN HATHAWAY	
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CARL GEORGE DEGEN	
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1 P R O C E E D I N G S

12:18:28 2 THE COURT: We have one juror I think we're waiting
3 on, but I understand there are some preliminary matters?

12:18:29 4 MR. KITTREDGE: Yes, Your Honor. The first one is
5 probably the business of the Court. We took the Court's
6 admonition and tried to find a way to speed things up and cut
7 things out. We decided to be safe we're going to drop the
8 witnesses that we were going to bring in for the inequitable
9 conduct defense because at this time it's we don't need him.

12:18:30 10 THE COURT: Okay.

12:18:31 11 MR. KITTREDGE: The second issue is, the motion that
12 was filed in the middle of the night last night with respect
13 to one of the fact witnesses, Mr. Slayden.

12:18:31 14 THE COURT: Okay. Fact or expert?

12:18:31 15 MR. KITTREDGE: He's a fact witness.

12:18:31 16 THE COURT: Okay. Is that the Slayden of the Slayden
17 patent?

12:18:31 18 MR. KITTREDGE: That's the Slayden of the Slayden
19 patent.

12:18:31 20 THE COURT: All right. What's the issue?

12:18:31 21 MR. KITTREDGE: Do you want to go first?

12:18:32 22 MS. HUNTER: Yes, Your Honor. The issue is that we
23 weren't aware whether he was designated as a fact or expert
24 witness. We received notice that he wasn't expected to be
25 called as a witness and the 24 hour notification the parties

1 agreed to undertake. And Mr. Slayden was first identified as
2 a person who might have material knowledge or information
3 relating to Fallon's claim to defenses on literally the last
4 day of fact discovery at 5:04 p.m.

12:18:35 5 So after the close of discovery, hours before the
6 close of discovery, but effectively at the very end of
7 discovery, and so we were unable to depose him or obtain any
8 of the information from him due to this. And so we would ask
9 that he be precluded from testifying as an expert or fact
10 witness because he has not been properly disclosed to satisfy
11 requirements of Rule 26(a).

12:18:37 12 MR. KITTREDGE: Your Honor, iLight is suggesting that
13 they first realized Mr. Slayden was going to be a live witness
14 in the past 24 hours.

12:18:38 15 THE COURT: Well, I understood the objection to be a
16 little different. He wasn't listed as a witness under Rule
17 26(a)(1), is what I understood her objection to be.

12:18:39 18 MR. KITTREDGE: 26(a)(1), we filed that notice, we
19 finally found him, and identified him as someone that --

12:18:39 20 THE COURT: Let me back up, at least for my purposes.
21 When was he disclosed under Rule 26(a)(1) as a person who may
22 have knowledge of material matters?

12:18:40 23 MR. KITTREDGE: The last day of discovery.

12:18:40 24 THE COURT: Do you dispute the time of 5:04 p.m. or
25 whatever it is, the close of business hours?

12:18:41 1 MR. KITTREDGE: I'm not sure I understand the
2 question.

12:18:42 3 THE COURT: Well, she said you didn't disclose him
4 until after 5:00, which is after the close of business.

12:18:42 5 MR. KITTREDGE: That's true, too, Your Honor.

12:18:42 6 THE COURT: Okay. Now, when is he expected to be
7 called?

12:18:42 8 MR. KITTREDGE: This afternoon.

12:18:42 9 THE COURT: All right. What is going to be the
10 essence of his testimony?

12:18:43 11 MR. KITTREDGE: He is going to testify as to what he
12 did to develop his invention. It's going to be very brief
13 testimony. He's going to show the prototype he created so the
14 jury can see it. And this is critical testimony, because they
15 have already opened the door with Mr. Slayden. They had their
16 damages expert testify basically that he understood it doesn't
17 work.

12:18:45 18 They are going to put on expert testimony from Dr.
19 Roberts saying the same thing. The jury has a right to see
20 his device plugged in so they can decide for themselves
21 whether or not it works.

12:18:46 22 If I might address -- there is a fundamental fairness
23 issue on our side of this, if I might take a brief moment,
24 Your Honor.

12:18:47 25 THE COURT: All right.

12:18:47 1 MR. KITTREDGE: This is the witness list that was
2 filed on March 30th pursuant to the Federal Rules of Civil
3 Procedure and pursuant to Your Honor's pretrial order. We
4 identified Mr. Slayden. You can see him on Page 2 as a
5 witness that we will call at trial at that time. The Federal
6 Rules and Your Honor's order also gives iLight 14 days, two
7 full weeks, to raise any objections they have to witnesses.
8 They did file objections to exhibits. They never objected to
9 Mr. Slayden.

12:18:51 10 That would have been after April 3. Had they raised
11 that objection then, we could have addressed it at the April 6
12 pretrial conference. They didn't object then. They didn't
13 object at the April 6 conference. They didn't object all the
14 way up to trial. We relied on that, told the jury that, based
15 on that reliance, they are going to get to meet Mr. Slayden,
16 and they are going to get hear from him.

12:18:53 17 Now at the 11th hour they are trying to convince the
18 Court to keep him out, really, so that they can tell the jury,
19 or the jury will walk out with the impression that we didn't
20 bring a key witness that we told them they were going to meet.
12:18:54 21 And we wouldn't have told the jury that in opening statement
22 if this issue was pending.

12:18:54 23 They have known he was a live witness since March
24 30th.

12:18:54 25 THE COURT: You all can have a seat. Let him finish.

1 You all can have a seat. Let him finish. All right.

12:18:54 2 MR. KITTREDGE: I guess the other point I would make
3 is, there were a number of depositions that happened after the
4 close of discovery. If the plaintiffs had ever asked, we
5 would have certainly not opposed them taking his deposition.
6 If they had raised it at the pretrial conference, we wouldn't
7 have opposed them taking his deposition.

12:18:57 8 But again, he's only going to be up on the witness
9 stand, I would hazard to guess, depending on cross, 10 to 20
10 minutes. It will be very simple, very factual, testimony.

12:18:57 11 THE COURT: All right. Anything else?

12:18:58 12 MR. KITTREDGE: That's it, Your Honor.

12:18:58 13 THE COURT: For the plaintiff?

12:18:58 14 MS. HUNTER: Yes, Your Honor. We don't dispute the
15 fact that we received their witness list and that he was
16 included on their witness list on March 30th, along with a
17 number of other witnesses that never actually made it to
18 trial. And we maintain that we simply did not have an
19 opportunity to obtain fact discovery from Mr. Slayden. His
20 patent speaks for itself.

12:19:00 21 Furthermore, he should not be allowed to offer expert
22 testimony under the guise of being a fact witness. That's why
23 we brought in experts, and that's why we had experts analyze
24 Mr. Slayden's patent. He cannot opine as to the breadth of
25 his claims or about the subject matter that they encompass.

12:19:02 1 THE COURT: well, what do you say to his contention
2 that you didn't object, even at the time of the opening
3 statement?

12:19:03 4 MS. HUNTER: At the time of the opening statement?

12:19:03 5 THE COURT: Yes. Your argument was that there were a
6 lot of people listed as potential witnesses, but you didn't
7 know if he was going to be called or not. well, you would
8 have known that at the time of opening statement, given the
9 reference to him.

12:19:04 10 MS. HUNTER: Yes, Your Honor. We did not object, and
11 we do not contend that we did. We did not want to interrupt
12 the flow of Mr. Kittredge's testimony. But at that point, we
13 had not been put on notice that he was actually intended --
14 that they had actually intended to call him as a trial
15 witness. We had, in fact, notice that he might appear as a
16 trial witness, along with perhaps 15 or 20 other individuals.
17 But that was first time that we were actually put on notice
18 that he was going to be called as a witness in this matter, as
19 a fact witness or an expert witness.

12:19:08 20 THE COURT: well, let me ask the defense, how was he
21 testifying other than as a person with specialized knowledge?

12:19:08 22 MR. KITTREDGE: He is going to testify as a person
23 with knowledge of what he did to create his patent, to create
24 the device that led to his patent application. He is not
25 going to testify about the scope of his patent, he is not

1 going to testify about the scope of his claims. He is going
2 to testify about what he built and show it to the jury. This
3 is a device that plaintiffs have put on expert testimony that
4 says it doesn't work. The jury can look at it themselves and
5 decide.

12:19:11 6 As to their statement about the number of witnesses,
7 there were seven witnesses on our will call list. They didn't
8 object to any of them. They could have. The rules provide
9 for that so we can deal with it. If they had made any
10 objections to them, we would have addressed it and not
11 mentioned him in our pretrial -- excuse me, in our opening
12 statement, if we knew there was a potential issue.

12:19:14 13 Frankly, Your Honor, we have been sandbagged. We tell
14 the jury about an important witness in opening statement, with
15 reliance on the fact that they haven't objected. The jury has
16 been hearing about this patent all week long. They know they
17 have been told that we'll hear from this witness. And they
18 want to let this jury go out thinking, boy, that lawyer told
19 us we were going to get to meet Mr. Slayden, then he never
20 brought him. That is just patently unfair. Pardon the pun.

12:19:17 21 THE COURT: Well, there is also an unfairness that
22 they didn't get a chance to conduct discovery. If the
23 standard were, we listed him in our pretrial disclosures -- in
24 our final trial disclosures, and somebody is listed there for
25 the first time, then the other party doesn't get a chance to

1 conduct discovery.

12:19:19 2 MR. KITTREDGE: There is absolutely an issue about
3 that, Your Honor. I will tell you categorically, that was
4 five months ago. Had they raised the issue, we would have
5 certainly not objected to any deposition.

12:19:20 6 But a little bit more important than that is, had they
7 raised that issue, had we known they were going to complain
8 about that, we wouldn't have mentioned his name in opening
9 statement. They waited until the eleventh hour to raise that
10 issue just to put us in the position we are in now. If they
11 had raised the issue, we would never have mentioned his name.
12 And again, they had an authority, by putting on testimony
13 already in this case. That game just doesn't work. They are
14 going to put on more today with Dr. Roberts.

12:19:23 15 THE COURT: Well, why didn't the plaintiffs object or
16 seek an extension of discovery?

12:19:24 17 MS. HUNTER: Again Your Honor, we were unaware that he
18 was actually going to be called as a trial witness until the
19 opening statement. He was identified at the close of
20 discovery.

12:19:25 21 THE COURT: Well, he's listed under the expects to
22 present category on March 20th.

12:19:25 23 MS. HUNTER: Yes, Your Honor. Well, first of all, I
24 would like to discuss the Slayden commercial embodiment, the
25 Lektron device. It is not actually prior art. So even if he

1 is allowed to testify, his testimony is going to be -- it's
2 not really relevant to anything that is at issue here because
3 it's not prior art.

12:19:28 4 THE COURT: Well, do you dispute that your expert
5 referred to it in his report?

12:19:28 6 MS. HUNTER: I do not dispute that, absolutely. The
7 Slayden patent is material, as it's prior art that does need
8 to be addressed. It was addressed at length, and the
9 prosecution has mentioned these patents. But we maintain that
10 the patent itself speaks for itself. And our expert covered
11 the patent, not Mr. Slayden as an individual.

12:19:30 12 THE COURT: So is this Mr. Slayden just going to get
13 on the stand and say, I applied for a patent for a product,
14 this is my product, and here it is? Is that all he's going to
15 say?

12:19:32 16 MR. KITTREDGE: Almost. He is going to say, this is
17 what I did to create the device. He's going to show the
18 prototype that he created before the patent application was
19 filed, let the jury look at it, and say, that's the patent
20 application.

12:19:33 21 THE COURT: Well, the prototype before the patent.
22 I'm a little con--

12:19:33 23 MR. KITTREDGE: He built one.

12:19:34 24 THE COURT: I got that part. But is he only going to
25 show the product for which he obtained the patent? Or is he

1 going to show something else?

12:19:34 2 MR. KITTREDGE: He's going to show the prototype,
3 because that is what he made, and that is what their expert --

12:19:35 4 THE COURT: well, is the prototype different from what
5 he got the patent for? That's what I'm trying to get at.

12:19:35 6 MR. KITTREDGE: Structurally, no. It looks a little
7 rougher, because it was something he glued together in his
8 garage.

12:19:36 9 THE COURT: what does structurally no mean?

12:19:36 10 MR. KITTREDGE: well, let me make sure I understand
11 Your Honor's question.

12:19:36 12 THE COURT: I mean, if he had several prototypes that
13 he built before he got the patent, then it seems to me the
14 only relevant one would be the product that was actually
15 patented, not the prototype for the patent.

12:19:37 16 MR. KITTREDGE: I understand, Your Honor. This is the
17 prototype that the patent was based on. Now, I planned to
18 also have him authenticate and identify the commercial
19 embodiment. That was made after the patent application was
20 received. And that was the only point that counsel objected
21 to a moment ago.

12:19:39 22 I think that is also relevant. He can authenticate
23 it. And again, that is one of the things that their expert
24 says doesn't work.

12:19:40 25 THE COURT: well, this commercial representation -- is

1 that something he did?

12:19:40 2 MR. KITTREDGE: The company he worked for did, so he
3 can authenticate it. And you can look at these and see, they
4 look exactly like the figures in his patent. That's no more
5 complicated than that. The jury can look at it. He is not
6 going to provide any more testimony like, yeah, those are made
7 like -- from my patent drawings.

12:19:43 8 It really is factual testimony, Your Honor. And
9 again, I know I keep harping on this, but the jury has been
10 told they are going to hear from him. They were told that --

12:19:44 11 THE COURT: Yeah, but you can't unilaterally estop a
12 nondisclosure -- an untimely disclosure under the rules.

12:19:45 13 MR. KITTREDGE: I'm not sure I understand the
14 question, Your Honor.

12:19:45 15 THE COURT: By saying that I am going to produce him,
16 I don't think you can necessarily use that as a basis to
17 excuse a noncompliance with the rules.

12:19:46 18 MR. KITTREDGE: Well, I do think we complied with the
19 rules, Your Honor. It was late, it was at the end of the day
20 of discovery. They could have asked for his deposition, we
21 would have allowed it. They never asked. They could have
22 objected when we put him on our witness list. And there's
23 only seven on our will call list, and I think only one that
24 wasn't called, Tim Fallon. And Tim Fallon left the company.

25 They could have objected, and we would not be where we

1 are today. They wait until this -- literally the 11th hour
2 after we have been telling the jury they are going to get to
3 hear from him, and we have been completely sandbagged. It's
4 simple, relevant testimony, I'm talking about, like I said, 10
5 to 20 minutes.

12:19:51 6 THE COURT: Anything further?

12:19:51 7 MR. VEZEAU: Your Honor, with the Court's permission,
8 may I make just couple of comments on this?

12:19:52 9 THE COURT: Yes.

12:19:52 10 MR. VEZEAU: Here's the problem we have with Mr.
11 Slayden and the basic bottom line problem. He's going to give
12 technical testimony as to the nature of opinions as to devices
13 we have had no discovery on, namely so-called prototypes. And
14 then later some commercial embodiment that's not even prior
15 art. The prototypes aren't prior art, the commercial
16 embodiments. So he apparently is going to testify it's not
17 prior art.

12:19:54 18 And that's the issue. This is technical testimony.
19 It should have been in a narrative form for us to review ahead
20 of time, as the Court admonished the parties. All our experts
21 did this.

12:19:56 22 And so that is the real issue here. If he's going to
23 come in and say, I'm Mr. Slayden, and this is my patent,
24 frankly, their device is built around the Slayden patent. And
25 as Your Honor knows, that patent speaks for itself.

12:19:57 1 That's their defense on obviousness and participation.
12:19:57 2 Not these other devices.

12:19:57 3 THE COURT: Well, let me ask you this. Was the
4 Slayden patent disclosed at the close of the discovery
5 deadline?

12:19:58 6 MR. KITTREDGE: Oh, the Slayden patent, absolutely,
7 Your Honor. We have no problem with the patent. But these
8 other devices, no.

12:19:59 9 THE COURT: Well, were these other devices listed
10 under Rule 26(b)(a)(1)?

12:19:59 11 MR. PRICE: Your Honor, I can address that. The first
12 mention of Lektron in discovery was in the supplemental Rule
13 26(a) disclosures that came in after 5:00. In that same
14 reference to Slayden, they listed that Slayden had factual
15 knowledge of, among other things, this Lektron device. That's
16 when it first came up in discovery.

12:20:01 17 THE COURT: What was the electronic device disclosed?
18 Was it just his prototype and the commercial application or
19 what?

12:20:02 20 MR. VEZEAU: It was just merely mentioned as Lektron
21 products. That's all actually it was, Your Honor, that was
22 mentioned.

12:20:02 23 MR. KITTREDGE: The device that was mentioned
24 initially in disclosure statement was a commercial embodiment.

12:20:03 25 THE COURT: Well, does anybody have the Rule 26(a)(2)

1 disclosures?

12:20:03 2 MR. KITTREDGE: That was the only device we were aware
3 of. We didn't know he had prototypes until recently.

12:20:05 4 THE COURT: Well, I'm a little concerned about whether
5 the plaintiffs examined the products that are going to be
6 introduced or had the opportunity to do so.

12:20:05 7 MR. KITTREDGE: Well, with the commercial embodiment,
8 that was sum of all these supplemental expert reports that the
9 parties agreed on. It has been fully covered by our expert
10 witnesses.

12:20:06 11 THE COURT: But are you representing to the Court that
12 they have examined -- the other experts have examined these
13 Lektron products?

12:20:07 14 MR. KITTREDGE: They have had every opportunity to.

12:20:07 15 THE COURT: But I don't know how many products Lektron
16 produces. Did they get a chance -- are you saying you
17 produced to them the product that Slayden is going to
18 identify?

12:20:08 19 MR. KITTREDGE: There's two products, two devices
20 here. One is the prototype.

12:20:08 21 THE COURT: I got that part. What I'm trying to
22 figure out is whether the plaintiffs and their experts
23 received the commercial product from the Slayden patent that
24 you're going to ask him about.

12:20:09 25 MR. KITTREDGE: That commercial product -- and I'm

1 willing to take that out of his testimony -- that commercial
2 product has been the subject of expert reports. They have had
3 every opportunity to examine it. I don't know if they went
4 and bought one, but they have been given access to it, we
5 provided access to it. I don't know if they bothered to look
6 at it. They have had every opportunity, and their expert has
7 opined on it.

12:20:12 8 THE COURT: Do you dispute that your expert opined on
9 the Lektron products?

12:20:13 10 MR. KITTREDGE: Our dispute has -- our expert has --

12:20:13 11 THE COURT: I'm trying to figure this out for myself.

12:20:13 12 MR. KITTREDGE: I'm sorry.

12:20:13 13 THE COURT: I'm asking the plaintiffs.

12:20:13 14 MR. SCRUTON: Your Honor, our expert has never seen
15 the Lektron device.

12:20:14 16 THE COURT: What do you say to the contention that
17 your expert referred to it in his report?

12:20:14 18 MR. SCRUTON: The only report where he referred to it
19 -- there has been a series of supplemental reports. And there
20 was a supplemental report where the defendant's expert, Mr.
21 Hathaway, referred to Lektron device, and our expert
22 essentially said, well, as far as he understands, the Lektron
23 device, since it's not prior art, is not relevant to this
24 case, something with which we agree.

12:20:16 25 So far there has been nothing to establish that the

1 Lektron device is actually covered by the patent. There has
2 been no expert testimony on that. Mr. Slayden was not
3 competent to provide that testimony.

12:20:17 4 THE COURT: well, what is it that the defense expert
5 said about the Lektron products again?

12:20:18 6 MR. KITTREDGE: He says it works real good, completely
7 in contradiction to plaintiff's expert who says --

12:20:18 8 THE COURT: well, no, I'm trying to get an idea -- I
9 mean, the contention was just made that there is no -- that
10 there might not be testimony to tie the Slayden patent to the
11 Lektron products. So does the expert identify the Lektron
12 product that he refers to as something that was made that in
13 his opinion is covered by or is a product of the Slayden
14 patent?

12:20:21 15 MR. KITTREDGE: The defense expert does. He says this
16 is -- and it's not that it's covered by its claims, it was a
17 device that was disclosed in it. And you can really tell that
18 quite simply by looking at the drawings in the patent and
19 looking at the device.

12:20:22 20 THE COURT: well, if he's going to refer to the
21 Lektron products, is Slayden, then, in essence, testifying
22 that this product is covered by my patent?

12:20:23 23 MR. KITTREDGE: who?

12:20:23 24 THE COURT: Slayden.

12:20:23 25 MR. KITTREDGE: He is going to say that if we let him

1 go to commercial embodiment.

12:20:24 2 THE COURT: well, isn't that getting in the range of
3 expert testimony? Because it requires specialized knowledge
4 of, first, what his patent is, and then of how this product
5 was made and whether it falls under his patent.

12:20:25 6 MR. KITTREDGE: It goes to the inventor who created
7 the invention, who said, look at my drawing, it's the same.

12:20:25 8 THE COURT: Yes, but that's what I'm talking about.
9 It's more than lay testimony. It's testimony of a person with
10 specialized knowledge.

12:20:26 11 MR. KITTREDGE: well, and this is the thing we're
12 talking about. And it's not complicated. It all comes down
13 to what you see here.

12:20:27 14 THE COURT: well, it's not a matter of me looking at
15 it and saying it's not complicated, it's a matter of whether
16 it's admissible or whether it actually constitutes expert
17 testimony for which Rule 26)a)(2) would have required a
18 report.

12:20:29 19 MR. KITTREDGE: well, I don't believe it is, Your
20 Honor. It's marked with a patent number. But again, we're
21 just talking about commercial embodiment.

12:20:29 22 THE COURT: well, I'm going to exclude Slayden from
23 testifying about the Lektron products. If the experts have
24 already testified about it, anything else would be cumulative.
25 I'm concerned that the comparative -- testimony comparing the

1 products puts it in a category of expert testimony for which a
2 Rule 26(a) 2002 report would have been required.

12:20:32 3 Now, as to the testimony about his patent, what time
4 do you all expect to call him today?

12:20:32 5 MR. KITTREDGE: This afternoon.

12:20:33 6 THE COURT: We'll take a brief recess. We'll be in
7 recess for a few minutes.

12:20:33 8 (Recess.)

12:20:33 9 THE COURT: I don't want to keep the jury. I want
10 to move things along. It seems to me there are two issues.
11 The first issue is whether untimely disclosure under Rule
12 26(a)(1) precludes testimony of the disclosed witness. The
13 other issue to me is whether an inventor's testimony about his
14 patent is expert testimony subject to Rule 26(a)(2). So since
15 he's not going to be called until this afternoon, that will
16 give me time during the lunch hour to do some more research,
17 and we'll just go on with the next fact witness.

12:20:37 18 MR. KITTREDGE: Your Honor, if I may address that last
19 point. Mr. Cleaver, one of the inventors in this case,
20 testified extensively about all of iLight's signs and that all
21 of those signs come within his patent. He has not been
22 disclosed as an expert witness in the case. They have never
23 produced an expert report on him.

12:20:38 24 We didn't object, because that's not improper
25 testimony. Inventors testify like that all the time. We're

1 just asking for the same consideration for Mr. Slayden.

12:20:39 2 THE COURT: well, we'll see.

12:20:39 3 MR. SCRUTON: Your Honor, we also have several
4 objections to Mr. Hathaway's testimony.

12:20:40 5 THE COURT: All right. Let's see the objections to
6 Hathaway's testimony.

12:20:40 7 MR. SCRUTON: I have a copy which is chapter and verse
8 for the Court. Generally, they -- I think they fall into
9 three or four categories. One is --

12:20:41 10 THE COURT: well, can I have his narrative?

12:20:41 11 MR. SAWYER: Your Honor, I have a copy of that, I
12 believe has all of the --

12:20:42 13 THE COURT: well, if somebody refers to page, and
14 sometimes it's necessary to put things into context.

12:20:42 15 MR. SAWYER: All -- this is highlighted as well for
16 Your Honor.

12:20:43 17 THE COURT: well, that's all right. All right. Page
18 16?

12:20:43 19 MR. SCRUTON: Your Honor, the first couple of ones --
20 there are two objections.

12:20:43 21 THE COURT: well, let me just --

12:20:43 22 MR. SCRUTON: All right.

12:20:43 23 THE COURT: Your specific objections.

12:20:44 24 MR. SCRUTON: All right. One is that they deal with
25 the color of one of iLight's products, of the sidewalls in the

1 product. And we believe that was contrary -- well, and that
2 goes to the issue of whether reflective sidewalls should be
3 white. We believe that's contrary --

12:20:45 4 THE COURT: Let me -- I just got these documents.
5 Just hold on for a minute.

12:20:46 6 MR. SCRUTON: All right.

12:20:46 7 THE COURT: Now, the first one is that he didn't refer
8 to the Lektron products until his supplemental report?

12:20:47 9 MR. SCRUTON: Well, okay. This first reference here
10 on Page 16?

12:20:47 11 THE COURT: No, sir, the introduction. You've got
12 slides 30 to 38 to 42.

12:20:48 13 MR. SCRUTON: I'm sorry. Yes, that goes to the
14 history of the disclosure in discovery of Lektron device.

12:20:48 15 THE COURT: Where is the discussion about the Lektron
16 device in his narrative?

12:20:48 17 MR. SCRUTON: Okay. That's toward the end. And it
18 begins I believe on Page 40, which is at the bottom of the
19 third page of this document that I have handed you.

12:20:50 20 THE COURT: I don't know if I am going to have an
21 expert talking about the references to lawyerly arguments.
22 well, the reference is he wasn't familiar with Lektron device,
23 and it looks to me like he's describing it in some detail.

12:20:51 24 MR. SCRUTON: This is their expert, Mr. Hathaway. And
25 he is familiar with Lektron, Your Honor.

12:20:52 1 THE COURT: Well, what is the basis for this
2 introductory paragraph about slides 38 to 42?

12:20:53 3 MR. SCRUTON: I'm sorry?

12:20:53 4 THE COURT: What is this introductory paragraph on
5 your objections to 38 to 42, then?

12:20:54 6 MR. SCRUTON: Okay. That paragraph goes to -- well,
7 it goes to a couple of things. One is the lack of disclosure
8 in discovery. Second is that, while --

12:20:55 9 THE COURT: Wait a minute. Hold on. It was in his
10 supplemental report?

12:20:55 11 MR. SCRUTON: Yes.

12:20:55 12 THE COURT: Was the supplemental report filed
13 consistent with the dates set out in the Court's order?

12:20:56 14 MR. SCRUTON: The supplemental report was filed, I
15 believe, on March 30? Yes.

12:20:56 16 MR. SAWYER: Judge, we exchanged a number of
17 supplemental reports on the technical experts by agreement of
18 the parties, Your Honor.

12:20:57 19 THE COURT: Okay. You say here that the report does
20 not analyze the Lektron device, it merely asserts it as an
21 embodiment of the Slayden patent. It doesn't even allege that
22 the device itself was available before iLight's application
23 was filed.

12:20:58 24 He does say on one of the pages I just read that the
25 Slayden patent -- that this product was made after the iLight

1 patents were filed.

12:20:59 2 MR. SCRUTON: Right. So he's not alleging that the
3 Lektron device was prior art in this incident, was made before
4 the iLight patent was filed. And so -- there are two ways.

12:21:00 5 THE COURT: So you're saying the first objection is to
6 exclude slides 38 to 42 --

12:21:01 7 MR. SCRUTON: Yes.

12:21:01 8 THE COURT: -- or are you talking about excluding
9 narrative as well?

12:21:01 10 MR. SCRUTON: Both.

12:21:01 11 THE COURT: Well, what pages of the narrative do you
12 want to exclude under this paragraph?

12:21:01 13 MR. SCRUTON: Okay. If you will turn to the third
14 page of my -- the chart there at the bottom. I've got page
15 and line. The first section is Page 40, the last four lines
16 to the first four lines of Page 41.

12:21:03 17 THE COURT: What do you say to the contention -- and
18 I'm now dealing with the third page of this document of
19 objections, Page 40 -- that if it was made after the iLight
20 patents were filed, it could not have been prior art, and,
21 therefore, isn't relevant?

12:21:05 22 MR. SAWYER: Your Honor, we're not contending it's
23 prior art. It's relevant for two independent reasons. First,
24 both Mr. Bratic, iLight's expert witness, opened the door on
25 this and said the Lektron device would not be a noninfringing

1 alternative and wouldn't work. And so we want to demonstrate
2 that it certainly does work.

12:21:07 3 And second, Dr. Roberts is going to put on testimony
4 that when he tried to build one based on the patent, it didn't
5 work. And this demonstrates again that it does work.

12:21:08 6 So we're not offering it as prior art. We're offering
7 the Slayden patent as prior art, and potentially the Slayden
8 prototype. But not this.

12:21:09 9 MR. SCRUTON: Nobody has analyzed the Lektron device
10 to determine, A, whether it's covered by the Slayden patent,
11 and, B, whether it would be a significant improvement to the
12 Slayden patent.

12:21:10 13 MR. SAWYER: Just two quick points to respond to that.
14 The first is, it seems odd to me that iLight is in the trim
15 business, and this is assimilated neon trim that they didn't
16 have access to. It seems very odd to me that they couldn't
17 have access to it. The second is that it doesn't have to be
18 covered by a patent to be a noninfringing alternative.

12:21:13 19 MR. SCRUTON: Yeah, if it's not much of a
20 noninfringing alternative, if it's architectural trim, and if
21 it's determined to be an alternative for signage, which is a
22 current product.

12:21:14 23 MR. SAWYER: I believe that's a close point.

12:21:15 24 THE COURT: Well, if your expert testified about this
25 Lektron product, doesn't that open the door to this testimony?

12:21:15 1 MR. SCRUTON: Well, our expert has not testified about
2 the Lektron product -- well, I guess did Mr. Bratic?

12:21:16 3 MR. PRICE: Mr. Bratic had a one sentence rebuttal
4 snippet about the Lektron device.

12:21:17 5 THE COURT: But the number of references I'm not sure
6 is so important as the fact that it was raised. If he raised
7 it in his report, then I think they have an opportunity to
8 comment. I will overrule the objection to Page 40, the last
9 four lines, to the first four lines on Page 1. Objection
10 overruled.

12:21:19 11 Now, let's go back to the first page. Page 16, Line
12 2.

12:21:19 13 MR. SCRUTON: Right. And there they are talking about
14 iLight's Camel sign that we saw where it has white paint on
15 the inner sidewalls. And so what they are doing --

12:21:20 16 THE COURT: Hold on just a minute. Hold on. Page 16,
17 last two lines. Okay. Okay. Now, what is the objection
18 here?

12:21:21 19 MR. SCRUTON: Okay. The objection here is, one, they
20 are comparing iLight's product to try to determine what
21 iLight's patent means, which is not proper, because iLight's
22 product is not necessarily the sum and substance of the
23 patent. And the second is, the Court had indicated in our
24 understanding that color was not the issue with regard to
25 whether interior sidewalls were reflective or not.

1 Essentially what Mr. Hathaway is saying here is these
2 aren't reflective -- well, he is saying if you want them
3 reflective, they should be white, and Fallon's are not
4 reflective because they are black. And that goes through
5 several of these objections.

12:21:26 6 MR. SAWYER: Your Honor, we're not suggesting that the
7 patent requires white sidewalls. What I believe Mr. Hathaway
8 is testifying is he is getting a demonstration of two types of
9 reflectivity, one is specular, one is diffuse. And in his
10 opinion, he -- there is a difference between specular and
11 diffuse. And as an example of a diffuse diffuser, he points
12 to the iLight patent or the iLight sign to help illustrate
13 that point to the jury. He is not basing his infringement
14 position on whether or not -- or at least to this limitation,
15 on whether or not the inner sidewall is white. It's simply an
16 exemplar for the jury, because some of these terms I think are
17 difficult for the jury to understand.

12:21:31 18 MR. SCRUTON: The Court can read it for yourself, but
19 it certainly appears to me that he's saying in these quoted
20 snippets that iLight's is white, Fallon's is black, therefore,
21 Fallon's is not reflective.

12:21:33 22 MR. SAWYER: And the only point I would make is,
23 actually, the -- in Mr. Hathaway's testimony is, in his
24 opinion, to be favorably light reflective, a diffuse --
25 something diffuse might be better than specular.

12:21:34 1 THE COURT: Well, the Court is concerned it's a back
2 door to the Court's construction of the claim for which the
3 Court ruled that the light was not relevant. So I sustain the
4 objection.

12:21:35 5 MR. SAWYER: Your Honor -- that's all right. Thank
6 you.

12:21:35 7 THE COURT: Page 19.

12:21:35 8 MR. SCRUTON: Lines 11 to the end. That's essentially
9 the same objection, Your Honor.

12:21:36 10 THE COURT: Again, I think that's a back door on the
11 Court's ruling on construction. That will be excluded.
12 slide 15? which page?

12:21:37 13 MR. SCRUTON: That goes to the same point.

12:21:37 14 THE COURT: What page? It just makes a reference --

12:21:37 15 MR. SAWYER: Your Honor, if we could -- we're going to
16 delete those sections. We agree that we should take that
17 slide out.

12:21:38 18 THE COURT: Okay. All right. That's agreed,
19 excluded.

12:21:38 20 MR. SAWYER: Yes, sir.

12:21:39 21 THE COURT: Page 20, Lines 3 through 8.

12:21:39 22 MR. SCRUTON: Okay. Now, this goes to the exterior
23 light absorbing --

12:21:39 24 THE COURT: But there is no reference to color.

12:21:39 25 MR. SCRUTON: That's true. Here he says that it's --

1 it's his opinion that the Fallon signs don't have exterior
2 light absorbing surface.

12:21:40 3 THE COURT: I will overrule the objection on that one.

12:21:41 4 MR. SCRUTON: All right.

12:21:41 5 THE COURT: Page 24, Lines 1 through 4?

12:21:41 6 MR. SCRUTON: That one goes to the color on light
7 reflecting again.

12:21:42 8 MR. SAWYER: Your Honor, I don't believe it goes to
9 color. What you will find in the testimony, and you'd have to
10 -- I'd have to --

12:21:42 11 THE COURT: Well, the thing is, I'm concerned about
12 his use of color in terms of what the Court has defined in
13 terms.

12:21:43 14 MR. SAWYER: Exactly. And let me just -- if I could
15 just take one minute of your time, Your Honor. The point is
16 that both Dr. Roberts and Mr. Hathaway did some extensive
17 testing on whether something is reflective or not reflective.
18 I think Mr. Hathaway's testimony will be there are lots of
19 things you can do to have very favorably reflective sidewalls.

20 However, in this case, the very black nature of the
21 sidewalls, not the color black itself, means it's just a very
22 a poor reflective surface and is not favorable as the Court
23 defined it.

12:21:46 24 THE COURT: Well, I still think that it back door's
25 the Court's ruling on light reflecting. So the objection on

1 24 will be sustained.

12:21:47 2 MR. SAWYER: Your Honor, if I can, there are a number
3 of these cites.

12:21:48 4 THE COURT: I'm just dealing with them as they are
5 listed.

12:21:48 6 MR. SAWYER: I know, but may I make a suggestion on
7 this? It would be appropriate -- or I'll ask the plaintiff if
8 we just strike the, from black plastic -- can we just say the
9 interior sidewalls are constructed of a material that is a
10 poor reflective and, therefore, cannot be considered light
11 reflecting? Because that's consistent with the testimony.

12 And if Your Honor is concerned about the color in
13 there, I think we can adjust that to take that out. I mean,
14 this is not infringement opinion.

12:21:51 15 THE COURT: I think also there was expert testimony
16 that all colors are reflective.

12:21:51 17 MR. SAWYER: And Mr. Hathaway is going to agree to
18 that.

12:21:52 19 THE COURT: But what he's saying here is that he is
20 automatically excluding a color from being reflective.

12:21:52 21 MR. SAWYER: I think he's -- he will admit that
22 everything -- and if you look at the --

12:21:53 23 THE COURT: I'm just providing further rationale for
24 the Court's ruling.

12:21:53 25 MR. SAWYER: So is it okay, adjusting the language a

1 little?

12:21:54 2 THE COURT: well, for clarity of the record I would
3 like to deal with what the specific objection is. If these
4 rulings render a number of these other objections moot, and
5 you all want to work it out, because, as I understand it, this
6 is the next witness, so --

12:21:55 7 MR. SAWYER: It is the next witness, Your Honor.

12:21:55 8 THE COURT: So we just need to go ahead. So the
9 objection to Page 24, Lines 1 through 4 are sustained.

12:21:55 10 MR. SAWYER: And I don't mean to ask Your Honor a
11 second time if you have already ruled on this, but can we
12 change the language from constructed from black plastic to
13 constructed from a material that is a poor reflective
14 material? Something along those lines? Because I think this
15 is important to our noninfringement issue.

12:21:57 16 THE COURT: well, I don't want to be in the position
17 of rewriting testimony. This is the narrative, this is what
18 was in it. We're going to rule on this.

12:21:58 19 MR. SAWYER: Thank you, Your Honor.

12:21:58 20 THE COURT: All right. Page 25, Lines 10 and 11?

12:21:58 21 MR. SCRUTON: That's the same issue again, Your Honor.

12:21:59 22 THE COURT: That's in the third paragraph, last line.
23 That will be sustained.

12:21:59 24 MR. SCRUTON: Okay. The next one, Page 25, Lines 13
25 to 15. That goes back to the exterior light absorbing.

12:22:00 1 THE COURT: 13 to 15? Hold on.

12:22:00 2 MR. SCRUTON: So I think that would follow.

12:22:01 3 THE COURT: I think that one is okay. So Page 25,
4 Lines 13 to 15, is overruled. Objection is overruled. Page
5 26, Lines 7 and 8.

12:22:01 6 MR. SCRUTON: We're back to the black plastic.

12:22:02 7 THE COURT: That one is sustained. And then on Page
8 27, lines 5 through 11. I think that one is all right.
9 overruled.

12:22:03 10 Page 28, Lines 3 to 5. Sustained.

12:22:04 11 Page 29, Lines 5 to 7. Sustained for the reasons
12 stated on earlier language.

12:22:05 13 Page 30, Lines 4 to 6, which is actually the second
14 paragraph, I take it, on Page 30. That's sustained.

12:22:05 15 Page 40, we've already addressed.

12:22:06 16 Page 41, Line 6 through 7.

12:22:06 17 MR. SCRUTON: Here he is comparing the Lektron device
18 to the Fallon device and the iLight device, essentially to
19 determine infringement. And we think the Lektron device is
20 being improperly substituted for the Slayden patent.

12:22:08 21 MR. SAWYER: Your Honor, it does not go to
22 infringement.

12:22:08 23 THE COURT: well, I'm going to strike "very lawyerly"
24 from this.

12:22:08 25 MR. SAWYER: Very well, Your Honor.

12:22:09 1 THE COURT: Now, on Page 41, Lines 6 and 7. I mean,
2 similar in thickness is -- it's a factual type contention. I
3 don't see the problem with that.

12:22:10 4 MR. SCRUTON: Well, the problem is that the Lektron
5 device is irrelevant. The only point of this is whether the
6 Fallon device infringes. And he's saying, well, it's similar
7 to the Lektron device, but the Lektron device is not the
8 saving patent.

12:22:12 9 THE COURT: Well, I think that can be brought out on
10 cross.

12:22:12 11 Page -- Lines 12 to 20. And the basis for this is the
12 reference to your expert's referring to the Lektron product in
13 his report. And, therefore, I think that opened the door for
14 them to have an opportunity to comment on that as well.

12:22:14 15 MR. SCRUTON: Okay.

12:22:14 16 MR. PRICE: Your Honor, may I just real briefly tell
17 you exactly what he testified to, because it was very limited,
18 and it may have bearing on the infringement argument.

12:22:15 19 This is what Mr. Bratic said in rebuttal testimony.
20 He said, Mr. Degen cites to noninfringing alternatives in
21 marketing, including Everlight's LED products, Enhanced
22 America's LED products, and Lektron products. However,
23 Everbright's product is a flat piece of plastic. It does not
24 look like neon. Enhance America has very little market in the
25 LED signs that look like neon. And Lektron's products can't

1 be used in tight bends and is not as bright as neon.

12:22:17 2 That goes to noninfringing commercial alternatives,
3 which their damages expert -- will be addressed. That's a
4 different issue than infringement.

12:22:18 5 THE COURT: Again, I think that the reference he made
6 opens the subject. So I will overrule the objections to lines
7 12 through 20 on Page 41.

12:22:19 8 Slide 38 through 43.

12:22:20 9 MR. SCRUTON: That one compares dimensions.

12:22:20 10 THE COURT: Consistent with the ruling, that will be
11 overruled.

12:22:21 12 Page 42, Lines 5 through 13.

12:22:21 13 MR. SCRUTON: That's a similar issue, Your Honor.

12:22:21 14 THE COURT: For the reasons stated earlier, that will
15 be overruled.

12:22:21 16 Page 44, lines 2 --

12:22:22 17 MR. SCRUTON: Here he's comparing the reflectivity of
18 the Lektron device to the reflectivity of other devices, not
19 particularly relevant to whether it's a commercial alternative
20 but whether the sidewalls are reflective or not.

12:22:23 21 MR. SAWYER: I think this is the same objection which
22 is Lektron device.

12:22:24 23 THE COURT: well, the last two lines make reference to
24 color.

12:22:24 25 MR. SAWYER: We're willing to strike the last two

1 lines, Your Honor.

12:22:25 2 THE COURT: willing or not, they are gone.

12:22:25 3 MR. SAWYER: Fair enough.

12:22:25 4 THE COURT: Page 44, objected as to the last two
5 lines. Otherwise, they will be admitted.

12:22:26 6 MR. SCRUTON: And let's go to slides.

12:22:26 7 THE COURT: Text on Page 40 -- all of 45 is going out.
8 I'm going to sustain that one.

12:22:26 9 MR. LIPSHIE: Which one, Your Honor?

12:22:27 10 THE COURT: Page 45, except for the last paragraph.
11 No, wait a minute. The top line is out on Page 45 based on
12 the Court's ruling about the bottom of Page 44. The first
13 complete paragraph on Page 45 is sustained. The last
14 paragraph, likewise, referring to color is sustained.

12:22:29 15 MR. SAWYER: If I might just, Your Honor, in this
16 particular section he's actually demonstrating your point that
17 color doesn't have -- it doesn't have to be white or something
18 like that. He is actually testifying that many colors can be
19 reflected.

12:22:31 20 THE COURT: well, there is a reference to the black
21 sidewall on the Fallon product.

12:22:31 22 MR. SAWYER: You mean on the bottom, the third line?

12:22:32 23 THE COURT: And it talks about the red portion of the
24 spectrum, the Lektron housing sidewalls becoming more
25 reflective.

12:22:32 1 MR. SAWYER: Okay. He's just demonstrating the
2 reflectivity in a broad spectrum of light.

12:22:33 3 THE COURT: But there is a color with respect to the
4 wall, isn't it?

12:22:34 5 MR. SAWYER: No, that's the color of light that's
6 being reflected off.

12:22:34 7 THE COURT: Well, the bottom paragraph is out. What
8 do you say to the first complete paragraph on Page 45, that
9 the color it is in reference to is just a glow? Do you
10 dispute that?

12:22:35 11 MR. SCRUTON: It seems to me that he is talking about
12 the color of the device, but I confess that --

12:22:36 13 THE COURT: Well, it says red LEDs and very deep red
14 output color.

12:22:36 15 MR. SCRUTON: Right.

12:22:37 16 THE COURT: And that was a reference to some of your
17 products, red, wasn't it? The red color generally?

12:22:37 18 MR. SCRUTON: Some of our products are red.

12:22:37 19 THE COURT: I will overrule the objection as to the
20 first complete paragraph on Page 45.

12:22:38 21 All right. Now we're on Exhibit 1080.

12:22:38 22 MR. SAWYER: I think that's consistent with the script
23 that Your Honor has already let in.

12:22:39 24 THE COURT: Well, I have no way of finding this. On
25 what page is it?

12:22:40 1 MR. LIPSHIE: Sure. I can give you a copy of the
2 slide, but I believe it's on Page 43, Your Honor. It's the
3 top slide.

12:22:41 4 THE COURT: Any objection to the -- what is the
5 objection to the top slide?

12:22:41 6 MR. SCRUTON: Well, I think counsel is right, that
7 that is consistent with prior rulings on this device.

12:22:42 8 THE COURT: The remaining objections, then, should be
9 overruled, unless there is some showing --

12:22:42 10 MR. SAWYER: Your Honor, I believe we're probably -- I
11 just need to check the slide to make sure. I think where Your
12 Honor excluded testimony about the slide, we'll probably take
13 the slides out.

12:22:44 14 THE COURT: Do you all need time to --

12:22:44 15 MR. SAWYER: I think that's the only one.

12:22:44 16 THE COURT: Yes, sir.

12:22:45 17 MR. VEZEAU: Before the Court possibly takes a moment
18 off, may I ask the Court to consider an issue which I think
19 may confuse the jury. We've been talking about the Lektron
20 device, and we've been talking about the Slayden patent. The
21 defendant is basing invalidity on the Slayden patent, not the
22 Lektron device.

12:22:47 23 The defendant admits the Lektron device is not prior
24 art. But the problem is these narratives mix and match and
25 they blend together. I'm very concerned the jury may be

1 confused about what is prior art and what is not. I would ask
2 that the Court consider a simple cautionary instruction to the
3 jury that the Slayden patent is the prior art defense of the
4 defendants here, but this Lektron device was a commercial
5 device, it is not prior art to these patents.

12:22:51 6 MR. KITTREDGE: That's acceptable to Fallon, Your
7 Honor.

12:22:51 8 THE COURT: All right. When the first reference is
9 made to Lektron, the Court will inform the jury that the
10 parties agree that the Lektron device is not prior art, was
11 produced after the plaintiff filed its patent application, and
12 its admissibility is limited as to whether the -- is
13 introduced on the parties' contention as to whether the
14 Slayden patent would work.

12:22:53 15 MR. KITTREDGE: Thank you, Your Honor.

12:22:53 16 MR. VEZEAU: I don't think we actually questioned
17 whether it would work. The question is, is this a
18 noninfringing alternative. I accept the -- I think I can live
19 with Your Honor's -- the way you are going to phrase it.

12:22:54 20 THE COURT: well, I will put it whether the Lektron
21 product is a noninfringing alternative.

12:22:55 22 MR. VEZEAU: Yes. And that goes to the issue of
23 damages, Your Honor.

12:22:55 24 MR. KITTREDGE: You absolutely need to say that, Your
25 Honor.

12:22:55 1 THE COURT: I'm going to make sure the Court Reporter
2 reproduces it for me.

12:22:56 3 MR. KITTREDGE: There is also an issue of whether it
4 works. Because that is rebuttal testimony that he Slayden's
5 patent won't work. You had it right the first time. We don't
6 disagree if you added whether it would work, whether it would
7 not --

12:22:56 8 THE COURT: Do you dispute that your expert said the
9 Slayden patent wouldn't work?

12:22:57 10 MR. VEZEAU: For signage, but not for architectural
11 trim, which is what it is. The problem with signage, Your
12 Honor, is Your Honor saw with these signs, they have very,
13 very tight curves. And this piece is just linear. So that
14 thing only sends -- and what they are bringing in is
15 architectural trim, not bringing in signage. So that the only
16 thing we're saying, we're not saying the Slayden patent
17 doesn't work. We're just saying it's not -- it was not
18 available for signage. It is certainly available for
19 architectural trim.

12:22:59 20 THE COURT: well, let me see the expert report with
21 the reference to the Lektron again. Or Slayden. What's the
22 portion of the expert's opinion?

12:23:01 23 MR. SAWYER: Maybe I might -- and they can correct me
24 if I'm wrong, Your Honor. Their expert creates a mock-up.

12:23:01 25 THE COURT: well, everybody is making their

1 characterization of what the expert said. I would just like
2 to see what he said.

12:23:02 3 MR. SAWYER: I understand.

12:23:02 4 MR. SCRUTON: It goes on at some length.

12:23:03 5 THE COURT: And we need to make a record of what
6 portions of it we're referring to.

12:23:03 7 MR. SAWYER: I think I can find that, Your Honor.

12:23:03 8 MR. SCRUTON: What happens is that our expert tries a
9 few different versions of this Slayden device with different
10 tubes and he finds that --

12:23:04 11 THE COURT: Well, let me see it. I just want to see
12 it, see what it says for myself.

12:23:04 13 MR. SCRUTON: Okay.

12:23:04 14 MR. SAWYER: Your Honor, I believe it starts on -- I
15 don't have the photos with me, but it starts on Page 21 of, I
16 believe, the rebuttal, and it goes on through -- 21 all the
17 way through 30. So it's eight pages of script.

12:23:06 18 THE COURT: Well, let me see it.

12:23:06 19 MR. SAWYER: This is the section of the expert report.
20 It has our notes on it.

12:23:07 21 THE COURT: Well, I've got the expert report without
22 notations, so that's why I would rather see --

12:23:07 23 MR. SAWYER: Okay. Thank you, Your Honor. This has
24 the pictures. That was the only reason we thought it might be
25 helpful.

12:23:08 1 THE COURT: Now, let me see the pictures. Unless you
2 all can agree to all the pictures where he's showing his --
3 making his reference to the Lektron or the Slayden patent --
4 are those all signage pictures?

12:23:10 5 MR. SCRUTON: No, from the portion that you are
6 reading, the pictures are pictures of these devices that he
12:23:10 7 is --

12:23:11 8 THE COURT: Are they elements of the devices? well,
9 let me see the pictures. Let me see the pictures.

12:23:11 10 MR. SCRUTON: Can we bring those up?

12:23:11 11 THE COURT: Has anybody got a hard copy?

12:23:12 12 MR. SCRUTON: well, no, not these slides, our slides.
13 THE COURT: well, can you all --

12:23:12 14 MR. SAWYER: Again, it may have our notes on it.

12:23:13 15 THE COURT: well, show it to the other side.

12:23:13 16 MR. KITTREDGE: I don't want to give him my reports.
12:23:14 17 Don't you have a copy of his report?

12:23:14 18 MR. SCRUTON: At the top of 27.

12:23:14 19 THE COURT: well, just show me the slides. Show me
20 the slides to which he refers when he is talking about the
21 Slayden patent. It seems to me the only relevant product
22 market in this case is the signage. would you all disagree
23 with that?

12:23:16 24 MR. SAWYER: Your Honor, I believe in the Slayden
25 patent there is a discussion that you can make it into a sign.

1 And in addition to that, our expert will testify that you can
2 use the Slayden patent to make a sign. If they think it's
3 not, they can ask him why not.

12:23:17 4 THE COURT: Well, the question was a modifying
5 instruction to the effect of, this is limited for the limited
6 purpose of whether the Slayden product can be made -- provides
7 an alternative noninfringing product for signage products
8 under the plaintiff's patent. Is that a fair statement? Do
9 you all agree on that?

12:23:19 10 MR. VEZEAU: Yes, Your Honor. We apologize for taking
11 the Court's time on this.

12:23:19 12 THE COURT: My sympathy is with the jury. They are
13 having to sit back there for about an hour and fifteen
14 minutes.

12:23:20 15 MR. VEZEAU: I think the curative instruction Your
16 Honor suggested before would be just fine. Let's just go on
17 with this.

12:23:20 18 THE COURT: Well, I will ask the Court reporter to
19 print out the rough draft of those pages, of the last 30
20 pages, I think will probably cover it.

12:23:21 21 MR. VEZEAU: Thank you, Your Honor.

12:23:21 22 THE COURT: If we get to a point where I haven't had a
23 chance to do that, I will just try and restate it, then if
24 anybody has an objection, you all can tell me, and I will
25 consider it.

12:23:22 1 Are there any other preliminary matters before we
2 bring the jury in?

12:23:23 3 MR. VEZEAU: Not with this witness, Your Honor.

12:23:23 4 THE COURT: All right. You may bring the jury in, Mr.
5 Marshal.

12:23:23 6 MR. SAWYER: Your Honor, I'm sorry.

12:23:23 7 THE COURT: Hold on.

12:23:23 8 MR. SAWYER: We do have to take a minute or two to
9 modify the script to just make sure we're --

12:23:24 10 THE COURT: We'll be in recess. Let me know when
11 you're ready.

12:23:24 12 (Recess.)

12:23:24 13 THE COURT: I'm going to return the Hathaway report
14 that was given to me earlier. If you all have got your
15 laptops, you may want to -- I will ask you to give the
16 opportunity to review. Innogenetics NV v. Abbott
17 Laboratories, 512 F.3d 1363, Pages 1375, 1376, a federal
18 circuit case dealing with late identification of a patent.
19 And you all will have a chance to look at that.

12:23:27 20 The other thing that I will ask you all to address
21 when we come back after lunch is whether, in light of the
22 expert's -- defense expert's testimony about the Slayden
23 product, whether the Slayden testimony would be cumulative.
24 You can bring the jury in, Mr. Marshal.

12:23:28 25 Are you all ready?

12:23:28 1 MR. VEZEAU: I'm sorry, Your Honor. I didn't hear the
2 last part.

12:23:29 3 THE COURT: Whether, in light of the defense expert's
4 testimony about the Slayden patent and this other product,
5 whether Slayden's testimony would be cumulative.

12:23:29 6 You can bring the jury in, Mr. Marshal.

12:23:29 7 (Jury in.)

12:23:29 8 THE COURT: Good morning, ladies and gentlemen of the
9 jury. The Court wants to apologize for you all having to sit
10 out for a while, but that was necessary for the Court to
11 discuss certain matters with counsel. If there was any
12 inconvenience due to the waiting, put it on me, not the
13 parties.

12:23:30 14 You may call your next witness.

12:23:30 15 MR. SAWYER: Thank you, Your Honor. The defense calls
16 Kevin Hathaway.

12:23:30 17 THE COURT: Mr. Hathaway.

12:23:30 18 (Witness sworn.)

12:23:30 19 COURT REPORTER: Please state your name for the
20 record.

12:23:30 21 THE WITNESS: Kevin Joseph Hathaway.

12:23:30 22 MR. SAWYER: Good morning.

12:23:31 23 Mr. Kevin Hathaway is being offered by Fallon Luminous
24 Products Corporation as a technical expert in illumination
25 design. Mr. Hathaway is the founder, chief technology

1 officer, and chief executive officer of Display Engineering
2 Incorporated.

12:23:32 3 Mr. Hathaway and his company developed and produced
4 display systems with solid state lighting sources for
5 consumer, military and industrial applications. In addition,
6 he and his company designed and developed specialty LED
7 lighting products which take care advantage of his and his
8 company's design and development knowledge in solid state
9 lighting and nonimaging optics.

12:23:35 10 Mr. Hathaway is married, has two children. He has a
11 bachelor of science degree in nuclear chemistry and master's
12 degree in physical chemistry with postgraduate work in optics
13 from San Jose State University.

12:23:36 14 He has over 35 years of experience in the
15 illumination, design and engineering field as a developer of
16 display applications, display lighting systems, optical
17 systems and nonimaging optical systems.

12:23:37 18 During his career, he obtained extensive experience in
19 the field of back lay for displays, nonimaging optics and high
20 performance illuminations.

12:23:37 21 In addition to his education and his general
22 background, he has also additional experience relating to the
23 technology in this case. Some of the examples are: In 1972
24 he joined Microma International, which at the time was owned
25 by Intel Corporation, one of the first liquid crystal. He was

1 initially a technician doing synthesis of liquid crystal
2 materials, and then developed liquid crystal materials for
3 several years.

12:23:39 4 In 1980, Mr. Hathaway, along with a few partners,
5 started his current company, Display Engineering. The company
6 does consulting to liquid crystal display manufacturers. In
7 addition, he developed and built some of the world's first
8 LCD-based electronic public information systems which were
9 used as portable scoreboards in outdoor sporting events such
10 as the Coors' Classic bicycle race.

12:23:41 11 Since he has worked as a consultant with avionics, he
12 has also worked as a consultant with the avionics division of
13 General Electric. During this time he developed manufacturing
14 processes for the fabrication of cockpit LCD panels.

12:23:43 15 In addition, he worked on the design of the display
16 and lighting portions of the subsystem. The lighting in the
17 system uses small incandescent lamps and prisms.

12:23:44 18 Mr. Hathaway has also worked as a consultant for Black
19 & Decker. He has worked out a hanging electronic kitchen
20 calendar containing multiple lighting calendar numeric
21 displays. He also advised a company called Olivetti as a
22 consulting engineer responsible for the LCD sub-system and one
23 of the first laptop computers.

12:23:46 24 In 1985 his consulting relationship with Compaq began.

12:23:46 25 He became their flat panel display expert. He consulted on

1 all of Compaq's early flat panel display based products,
2 including the 4x2, which was the first fully portable
3 computer.

12:23:47 4 He was part of Compaq's design team for the first
5 laptop computer called the SLT. This laptop used a backlit
6 LCD panel. Also as part of his work with Compaq he developed
7 the wedge light backlight, as well as other backlit products
8 for which more than 300,000 units were produced.

12:23:49 9 Mr. Hathaway has also advised a silicon wafer
10 processing equipment manufacturer involved in developing and
11 building rapid thermal processing systems used by companies
12 such as Intel, Samsung, Texas Instruments, and Motorola, only
13 to name a few.

12:23:50 14 In the production of --

12:23:50 15 He developed and tested detailed computer simulations
16 of new types of very high powered rapid thermal processing
17 optical distribution systems which are in some ways a little
18 bit similar to a heating lamp like those found in a restaurant
19 to keep food warm.

12:23:52 20 Mr. Hathaway has been actively engaged in consulting,
21 design and development of LCD and back lighting systems for a
22 variety of display applications, including pen based cabinet
23 computers, high brightness LCDs, light displays, aerospace
24 displays, point of sale displays, and displays for hand held
25 tests and diagnostic instruments.

12:23:54 1 His experience with optical waveguides and with
2 designing multiple light sources into an illumination system
3 is extensive. He has been awarded U.S. Patent numbers 505,946
4 and 5,202,950, both of which utilize a precisely designed
5 waveguide to uniformly illuminate a liquid crystal display.

6 Mr. Hathaway, does that accurately describe your
7 background?

12:23:57 8 MR. HATHAWAY: Yes, that does.

12:23:57 9 MR. SAWYER: Your Honor, we would offer Mr. Hathaway
10 as an expert. And with the Court's permission, I will ask him
11 to provide his opinions and testimony to the Court and the
12 jury.

12:23:58 13 THE COURT: You may do so.

12:23:58 14 THE WITNESS: Good morning. My name is Kevin
15 Hathaway. I live in Saratoga, California.

12:23:59 16 I have been retained by Fallon to offer an opinion on
17 whether the accused Fallon signs infringe the iLight patents.
18 My opinion is that the accused Fallon signs do not infringe
19 the iLight patents. My opinion is based on my findings after
20 careful study that the Fallon designs do not use many of the
21 elements that the patents require and that must be present by
22 law to find infringement.

12:24:01 23 The required elements that the Fallon products do not
24 have are rod or rod-like waveguide, as defined by the Court.
25 Instead, they have a thin walled diffuser. Next, the Fallon

1 products do not have a waveguide that preferentially scatters
2 light, which again is required by the patents. The Fallon
3 products do not have light reflecting surfaces or exterior
4 light observing surfaces as those limitations were defined by
5 the Court. There are several other elements that the products
6 lack, but it is important to note that if only one element of
7 the claim is missing from the Fallon products, then the entire
8 product not infringe that claim.

12:24:06 9 I have also been retained by Fallon to offer an
10 opinion as to whether the iLight patents are invalid. It is
11 my opinion that the patents are invalid. This is especially
12 true in light of how iLight has positioned its patents against
13 the Fallon signs. My opinion is that the patents do not claim
14 something that is new. In other words, the patents are
15 anticipated. In fact, the technology claimed in the iLight
16 patents was invented in disclosed and the United States Patent
17 granted to James Slayden, who worked for another lighting
18 company, before iLight filed for its patents.

12:24:09 19 In addition, the patents would also have been obvious
20 based on the Slayden patent and based on a number of other
21 uses for LEDs that were known before iLight applied for its
22 patents.

12:24:10 23 It is my opinion that one skilled in the art would
24 have considered the combination of known elements found in the
25 iLight patents was a predictable use of these known elements

1 according to their established function. This means in my
2 opinion that someone working in the sign industry could have
3 easily combined some basic parts with known functions of
4 several signs and come up with what the iLight patents now
5 claim is new.

12:24:13 6 I am going to explain my opinions as to both (1) why
7 Fallon does not infringe iLight's patents; and (2) in any
8 event, why those patents are invalid. I will discuss
9 noninfringement and invalidity in that order, and I will let
10 you know when I shift gears, but in this case the two are very
11 closely related, so a fair amount of my testimony will
12 overlap. That is, at times why I'm explaining
13 noninfringement, I will also give you some invalidity
14 explanations.

12:24:17 15 I want to tell you what I did in this case. Almost a
16 year ago, Fallon contacted me to ask if I could use my
17 experience and knowledge in this industry to examine the
18 patents and the Fallon products. I was not asked to give a
19 certain opinion, nor would I just give an opinion if asked. I
20 only formed my opinion that the patents are not valid and not
21 infringed after a long and careful study. I am now going to
22 give you some background on how I came to those conclusions.

23 First, as you have heard by now, one of the basic
24 principles I followed in this case was to examine the patents
25 and products, keeping in mind what one of ordinary skill in

1 the art would have thought at the time the patents were
2 applied for. And that time frame then is 2001.

12:24:22 3 I also had to determine what I thought one skilled in
4 the art would be. It is my opinion that someone of ordinary
5 skill would include individuals with a bachelor of science or
6 master's degree in general engineering science or engineering,
7 with a background in physics, and at least five years
8 experience in the illumination design and/or engineering field
9 or an individual with a master's or doctorate degree in
10 optical engineering and two years of experience in
11 illumination design and/or engineering field.

12:24:26 12 In addition to my definition of one of ordinary skill,
13 I believe that practical experience in lighting design is
14 important in this case. I will explain this more -- in more
15 detail later. Dr. Roberts' explanation of the technology
16 involved was very complicated and technical. He conducted a
17 lot of tests to try to show what he referred to as technical
18 requirements.

12:24:29 19 But in reality, what iLight now claims the Fallon
20 signs infringe in their patents is a design that is
21 essentially the same as what you see in a plastic lampshade
22 put into an attractive package. Therefore, some of the
23 concepts we will discuss sound complicated, and indeed, if
24 applied correctly, may be complicated. However, iLight, at
25 least in this case, is accusing signs that do not use

1 complicated technology and would not require advanced degrees
2 in physics to design and understand.

12:24:33 3 When I get to my validity of portion of my testimony,
4 we will talk about some of those people who designed these
5 exact devices before iLight did so.

12:24:33 6 I have told you my opinion in this case is that
7 Fallon's signs do not infringe and that the patents are
8 invalid. To simplify things, I want to first talk about
9 infringement.

12:24:35 10 It is important to remember that in order to find
11 infringement, you must find that each and every element of the
12 asserted claim is present in the accused device. Therefore,
13 if even a single element is missing, there is no infringement.
12:24:36 14 During my analysis, I examined all of the asserted claims.

12:24:36 15 THE COURT: Excuse me. Ladies and gentlemen of the
16 jury, you will receive an instruction from the Court on what
17 constitutes infringement. And you are bound to accept the
18 Court's instructions on what constitutes infringement.

12:24:38 19 THE WITNESS: Thank you, Your Honor.

12:24:38 20 THE COURT: Uh-huh.

12:24:38 21 THE WITNESS: However, many of the same terms are used
22 in many of the claims of the patent. You have also heard that
23 these three patents are what we call continuation patents,
24 which means they are part of the same family of patents. If
25 they have -- they have the same specification and drawings.

1 It is just the claims at the end of the patents that are
2 supposed to be a little different.

12:24:41 3 I understand that since all of the patents are
4 identical except for the claims, the argument made to the
5 Patent Office during the prosecution apply equally to all of
6 the patents. To make it a little easier and to introduce you
7 to many of the issues I found important, let's take a look at
8 one of the claims at issue in this case, claim 8 of the '238
9 Patent.

12:24:43 10 May I have the next slide? It's up.

12:24:43 11 So this is the entire claim.

12:24:44 12 And may I have the next slide?

12:24:44 13 And these are the portions of the claim that we
14 consider to be focused -- relevant in the case.

12:24:45 15 As you can see from this slide, this patent claim has
16 many elements which are often referred to as limitations that
17 the accused product must have in order to find infringement.
18 It is my opinion that the Fallon signs do not have all of
19 these limitations. What is very interesting, and I will spend
20 more time on this later, the bolded limitations found in this
21 slide which I have just told you are not found in the Fallon
22 signs are the very same features that will be important in my
23 testimony about invalidity, and how iLight convinced the
24 Patent Office its invention was different than the prior art.

12:24:50 25 Okay. Looking at this next slide, we can focus on the

1 term "rod-like". The Fallon signs do not use a rod or
2 rod-like member. Many of the claims that iLight is asserting
3 against the Fallon signs require a rod or rod-like member.

12:24:51 4 I started my review of the patent record with the
5 provisional patent application filed by iLight. The
6 professional patent application is the first filing with the
7 Patent Office that is supposed to show what the inventors
8 thought they invented. I was informed that a professional
9 patent application is simply a place holder; the Patent Office
10 does not review it to see if it discloses something new or
11 patentable.

12:24:54 12 Now I'm going to go through several arguments iLight
13 made during the prosecution of the patents. The back and
14 forth with the Patent Office is often referred to as the
15 prosecution of the patents. During these arguments back and
16 forth, Patent Office issued rejection based on U.S. Patent
17 Number 6,361,186. The inventor was James Slayden of Tulsa,
18 Oklahoma, and U.S. Patent Number 6,158,882, and the inventor
19 was a person named Bischoff.

12:24:57 20 The rejection was something referred to as an office
21 action, which simply is a document in which the Patent Office
22 tells the applicant the reasons why the patent should not be
23 allowed. In this case, the Patent Office told the applicants
24 that the prior art had already disclosed what iLight was
25 saying was new.

12:24:59 1 May I have Exhibit 626 brought up? And can you go to
2 the highlighted portion, please.

12:25:00 3 In the office action, the Patent Office told iLight
4 that the Slayden patent disclosed LEDs mounted below an
5 elongated translucent diffuser and that the Slayden patent
6 described the diffuser as producing a neon-like agree.
7 Bischoff displaced LEDs mounted in a hollow tube-like
8 structure that diffused the light.

12:25:02 9 This next slide shows the relevant figures from
10 Slayden and Bischoff that illustrate the hollow tube and
11 hollow arch-shaped diffusers.

12:25:03 12 Do you mind if I point those out?

12:25:03 13 THE COURT: You may do so.

12:25:03 14 THE WITNESS: Thank you. So this is the Slayden
15 patent, and this is the arch-shaped diffuser. And then down
16 there is the Bischoff patent, and there is the arch shape
17 there.

12:25:04 18 In response to the Patent Office's rejection based on
19 the Slayden and Bischoff diffusers that produce a neon-like
20 glow, iLight told the Patent Office:

12:25:05 21 First that Slayden disclosed the use of a hollow thin
22 walled, translucent diffuser.

12:25:06 23 Next they told the Patent Office:

12:25:06 24 Neither Slayden or Bischoff teaches or suggests the
25 use of an essentially solid rod. ILight explained that the

1 patents did not cover diffusers. Let's look at what they told
2 the Patent Office.

12:25:08 3 As the above discussion points out, to achieve the
4 desired light intensity and uniformity, the rod must
5 preferentially direct light along its length while also urging
6 the light out of a lateral surface. This requires an
7 essentially solid rod with optical waveguide and
8 light-scattering characteristics.

12:25:09 9 I found it important that when iLight described its
10 concept to the Patent Office, it used the words solid
11 waveguide to distinguish over a thin diffuser. We will talk
12 more about the difference between waveguides and diffusers,
13 but let's look at the word "solid".

12:25:11 14 Using the term solid to describe the rod or rod-like
15 member makes sense, especially when you look at the pictures
16 in the iLight patents as opposed to the Slayden and Bischoff
17 patents. To make it easier to see, let's compare Figure 3 of
18 the patents and the Slayden diffuser.

12:25:12 19 May I have next slide?

12:25:13 20 And again, here, this is the iLight patent, and this
21 is their solid member. And then this is the prior art Slayden
22 diffuser, which again is hollow. It's one of the embodiments
23 of the Slayden prior art.

12:25:15 24 As you can see, the rod-like member that the patents
25 disclosed has a depth or is solid as opposed to the thin

1 curved diffuser of Slayden.

12:25:16 2 Next let's look at the products iLight has told us are
3 covered by the patents.

12:25:16 4 May I have the next slide.

12:25:16 5 As you can see, Figure 3 looks almost exactly like the
6 solid rod-like member used by iLight in its products. It is
7 solid and also rounded at the top, and solid all the way
8 through and flattened at the bottom.

12:25:18 9 So there is the patent figure in the iLight patents,
10 and there is the product.

12:25:19 11 Now let's look at the diffuser used by the Fallon
12 signs.

12:25:19 13 Doug, may I have Exhibit 754 Y. And also may I have
14 the next slide.

12:25:20 15 This is the piece of diffuser that comes from the
16 Fallon products, from one of the Fallon products. And as you
17 can see, it is open and hollow. It corresponds to that
18 photograph right there, which is showing the open and hollow
19 ending.

12:25:22 20 As you can see, Fallon's signs use a thin hollow
21 diffuser. It is definitely not a rod. As a scientist, I
22 think you have to apply these terms in the same way when you
23 look at the prior art, Slayden for example, and when you look
24 at the accused products. The inventors told the Patent Office
25 that thin walled diffusers were different than rods or

1 rod-like waveguides. The Fallon thin walled diffuser can't be
2 considered rod or rod-like and, therefore, cannot infringe.

12:25:26 3 Take a look at this next slide which shows a picture
4 of the Fallon diffuser and the diffuser used in Slayden.

5 There again, this is the Slayden -- from the Slayden
6 patent, and that's the diffuser, an open diffuser and that's
7 the Fallon open diffuser.

12:25:27 8 Therefore, it is my opinion that the Fallon signs do
9 not have rod or rod-like members.

12:25:28 10 Another key term, and again, one that iLight used to
11 convince the Patent Office that its concept was different than
12 the prior art is "preferentially scatters light".

12:25:29 13 May I have the next slide?

12:25:29 14 Again, this shows the language in the patent. The
15 patent itself explains this term. And let's look at the
16 patent.

12:25:31 17 Can I have Exhibit 1, the '238 Patent? And now
18 highlight Column 6, lines 52 to 57.

12:25:31 19 THE COURT: would counsel approach the bench.

12:25:31 20 (Whereupon, a bench conference was held, out of the
21 hearing of the jury, to wit:)

12:25:32 22 THE COURT: The Court defined preferentially scattered
23 light. And I'm concerned about him reading the portions of
24 the patents as defining that, which would be the conflict of
25 what the Court --

12:25:33 1 MR. SAWYER: Your Honor, I don't believe he's going to
2 read portions that conflict with Your Honor's definition.

12:25:34 3 THE COURT: Well, it's not a definition.

12:25:34 4 MR. SAWYER: No, it's not a definition at all. He has
5 just explained about how the term applies to a rod-like
6 member, because there is an interplay between the rod and
7 preferentially scatters.

12:25:35 8 THE COURT: Do you agree?

12:25:35 9 MR. SCRUTON: I'm a little concerned also.

12:25:36 10 THE COURT: Either you have an objection or you don't.
11 I don't have it in front of me.

12:25:36 12 MR. SAWYER: It wasn't objected to earlier, Your
13 Honor. They have had the script.

12:25:37 14 THE COURT: All right. All right, sir.

12:25:37 15 (Conclusion of bench conference.)

12:25:37 16 THE WITNESS: Continue? Thank you.

12:25:37 17 So I will read from the patent. It bears repeating
18 that the quintessential feature of the present invention,
19 however, is the careful spreading or distribution of the
20 individual light patterns of the point's light sources such
21 that the light patterns are preferentially expanded along the
22 light emitting surface and form an oblong or oval light
23 intensity pattern.

12:25:40 24 This means that the waveguide rod must actually
25 preferentially scatter light according to how the Court

1 construed the claims. However, I think it is helpful to again
2 look at the patent. We see a picture of the concept in Figure
3 7.

12:25:42 4 Could you pull up the next slide, please.

12:25:42 5 You can see from the figures that the light pattern
6 must be oblong or extended in one direction more than another.
7 So by that I mean there is an elliptical oriented rather than
8 round. And the orientation of the long axis is along the long
9 axis of the diffuser.

12:25:44 10 As I said before, iLight used this concept of
11 preferentially scattering light to convince the Patent Office
12 that what it is doing is new; indeed, that it is whole point
13 of the patent's assertions that it uses -- it is using a
14 waveguide as opposed to a simple diffuser.

12:25:46 15 Now look at what iLight told the Patent Office about
16 the term "preferentially scatter" and the difference between a
17 diffuser and a waveguide.

12:25:47 18 May I have Exhibit 627. And now the highlighted
19 portion, please.

12:25:48 20 A leaky waveguide is a structural member that
21 functions both as an optical waveguide and light scattering
22 member. As a waveguide, it tend to preferentially direct
23 light entering the waveguide, including the light entering a
24 lateral surface thereof along the axial direction of the
25 waveguide.

12:25:50 1 Basically, diffusers don't preferentially scatter
2 light. Instead, the scattering of the light is uniform in all
3 directions. This is in contrast to the waveguide which
4 preferentially scatters light, just like we saw in Figure 7 of
5 the patents.

12:25:52 6 In my opinion, the Fallon signs do not have a
7 waveguide member that preferentially scatters light.

12:25:53 8 In order to show you that the Fallon sign uses a
9 diffuser and not a waveguide, I want to repeat a small
10 demonstration here that I previously performed in my lab. I
11 tested the diffusive material found on the Fallon signs to
12 determine if it directs light in one direction more than
13 another. That is, if the diffuser preferentially scatters
14 light like a waveguide. As we know, this is required by the
15 patents.

12:25:55 16 As I stated earlier, the Fallon signs use a good
17 diffuser that is really more than a plastic lampshade. The
18 diffusers on Fallon's sign were not wide enough to tell if the
19 scattering of the light was preferential or uniform because
20 the diffusers are fairly narrow.

12:25:57 21 And again, they are narrow this way.

12:25:57 22 I asked for samples of the lens material used by
23 Fallon that was wide enough to test the scattering effect and
24 determine if there was any preferential scattering. Remember,
25 iLight told the Patent Office, in order to get its patent

1 allowed, that they were not using a diffuser, but that its
2 concept must be a waveguide that directs light in one
3 direction more than another.

12:25:59 4 May I have Exhibit 888? Thank you.

12:26:00 5 This is the sample that was provided by Fallon. It is
6 a square that is roughly 4" on a side and is about 80/1000ths
7 of an inch thick.

12:26:01 8 As a side note, during my years of experience, I have
9 encountered many commercially available translucent diffusers
10 just like this.

12:26:01 11 This square is roughly the same thickness as I
12 measured for the Fallon diffuser -- Fallon diffusers that are
13 found on the signs I studied. In other words, this thickness
14 here is the same as that thickness there. Very, very close.

12:26:03 15 I understand the sample was made in Fallon's
16 manufacturing facility by the same process used to make the
17 actual diffusers, only it is wider. To test the light
18 propagation characteristics of this material, I directed a
19 green laser at the center of the test piece with normal
20 incidence.

12:26:05 21 Please pull up Exhibit 884, which shows the basic test
22 set-up.

12:26:05 23 And that is a photograph showing this diffuser sample,
24 and then a green laser -- in fact, this exact green laser.
25 And there is the laser right there in the background. And

1 it's shining directly at the back surface of the diffuser
2 material. And by normal incidence, that means that it's
3 shooting at straight at it, and there's not an angle between.

12:26:07 4 My tests confirmed that the lens material did not
5 preferentially scatter light, but instead, uniformly diffused
6 light equally in all directions. This is exactly what iLight
7 said their patents did not cover.

12:26:09 8 Now show the slide that compares the laser image on
9 the Fallon diffuser material to the figure.

12:26:09 10 As you can see, this is very different. The laser
11 light pattern is circular, not oblong, as required by the
12 patents.

12:26:10 13 And again, if you compare, this is the circular
14 pattern produced by the Fallon material, and this is what is
15 called out for in the iLight patent. So that should be oblong
16 rather than round.

12:26:11 17 As is obvious from the photographs, the Fallon
18 diffuser material is quite symmetric in its scattering
19 properties. There is no preferential axis upon which the
20 light propagates through this material.

12:26:13 21 And let me show you that exact experiment.

12:26:13 22 MR. SAWYER: Your Honor, can Mr. Hathaway come down
23 and demonstrate?

12:26:13 24 THE COURT: You may do so.

12:26:13 25 THE WITNESS: I happen to have two of these. So

1 again, this is the exact set-up, except that I'm holding it
2 instead of using it in my lab. And so what I did is I just
3 shot the laser into the back of that. As you can see, the
4 pattern produced is round. In fact, very round. And it is
5 not oblong.

12:26:16 6 MR. SAWYER: Your Honor, is it permissible to hand the
7 jury that piece of material, the exhibit and the laser?

12:26:16 8 THE COURT: You may pass it, without objection.

12:26:16 9 MR. SAWYER: Don't shine it in your eyes.

12:26:17 10 THE COURT: Give it to the Marshal. Step back from
11 the jury box.

12:26:17 12 THE WITNESS: You want to stay back and shoot it, not
13 at your eye.

12:26:17 14 THE COURT: If you will step back from the jury box.

12:26:17 15 MR. SAWYER: I'm just worried about the safety, Your
16 Honor.

12:26:18 17 THE COURT: Well, you can do it at a distance.

12:26:18 18 THE WITNESS: So what you can do --

12:26:18 19 BY MR. SAWYER:

12:26:19 20 Q. Mr. Hathaway, why don't we return to the script
21 and let the jury --

12:26:19 22 A. The reality is that the material itself behaves
23 in an isotropic manner. That is, it has no preferred
24 propagation axis. It is simply acting like dropping a pebble
25 within a pond. The disturbance moves in all directions

1 equally. If iLight performed a similar test, it did not
2 choose to disclose it. ILight has argued that the Fallon
3 diffuser produces a light pattern that is longer than it is
4 wide when you turn on a single LED on one of its signs.

12:26:23 5 Please pull up Exhibit 808, which is a picture that
6 Dr. Roberts relied on to demonstrate his version of
7 preferentially scatters light. There are a number of problems
8 with iLight's claims.

12:26:24 9 First, this supposed elongation is, in fact, caused
10 entirely by the physical truncation of the diffuser in the
11 short dimension, its width. This would be true for many
12 common diffuser set-ups. For example, you would see this in a
13 diffuser attachment for a camera flash, or the diffusive glass
14 or plastic often used in a shower stall. But bending and/or
15 cutting the material away simply created a condition in which
16 the viewer could not see the actual scattering pattern of what
17 would be a symmetrical pattern.

12:26:28 18 In addition, iLight does not take into account that
19 the LEDs used by Fallon by themselves produce an elongated
20 light pattern. LEDs with such light patterns were known
21 before the patents were filed and are commonly used. ILight's
22 patents require that the rod waveguide preferentially scatter
23 light to give an elongated, elliptical pattern. In my
24 opinion, this requirement is not satisfied by the use of an
25 LED that itself produces an elongated light pattern. It is my

1 opinion, the elongated light pattern produced by an
2 asymmetrical LED must be preferentially scattered by the rod
3 waveguide.

12:26:32 4 And please pull up Exhibit 886. To further illustrate
5 this point, I have taken Exhibit 886 and magnified it somewhat
6 for clarity. I cropped the upper and lower portions of the
7 circular diffusion pattern. And as you can see in the next
8 slide, Exhibit 887, except for the bright center spot caused
9 by the laser beam, note the overall similarity between this
10 exhibit and Exhibit 808 from Roberts' testimony.

12:26:35 11 Now that you have seen how the Fallon diffuser works,
12 let me give you some background on how waveguides work.
13 Waveguide properties are and have been very well known for
14 many years, long before iLight filed for its patents, and
15 there can be no dispute about that. You can think of these as
16 light pipes. You put the light in one end, and it travels
17 down the pipe until it comes out the other end, just like
18 water in a pipe. No leaking out the edges.

12:26:38 19 MR. SAWYER: Your Honor, Mr. Hathaway has a
20 demonstration for the jury. Can he come out of the box,
21 please?

12:26:39 22 THE COURT: Yes, he has leave to step down. Thank
23 you.

12:26:39 24 THE WITNESS: I would like to demonstrate a waveguide,
25 a simple waveguide.

12:26:40 1 This is an ordinary acrylic rod, and this is simply a
2 little flashlight. What I do is shine the light in the end,
3 and you can see if you look this direction you don't see a lot
4 of light coming out, but if you look this direction, it's
5 quite bright.

12:26:42 6 What's happening is the light is coming down in this
7 end and it's piping down, and it's coming out, so that unless
8 you do something, it will just come out the other end.

12:26:43 9 MR. SAWYER: Is it permissible to give the jury the
10 flashlight and the --

12:26:43 11 THE COURT: You may pass it without objection.

12:26:43 12 MR. SAWYER: Thank you.

12:26:44 13 THE WITNESS: Another type of waveguide is a leaky
14 waveguide. Just like the waveguide I showed you, leaky
15 waveguides are not new, and a lot was known about them before
16 the patents were filed. In the case of a leaky waveguide, it
17 is very much like a waveguide except that the surfaces are not
18 smooth or the material is not uniform. The rough surfaces and
19 the nonuniform makeup of the waveguide causes the light to
20 deviate and leak, as they call it, out of the waveguide, along
21 its length, as opposed to staying trapped and only exiting out
22 the far side.

12:26:48 23 These two phenomena of light bouncing off of small
24 physical defects in or on an optical material are typically
25 known collectively as scattering. In both of these

1 situations, the presumption is that, at any specific point
2 along the waveguide, some to most of the light has not been
3 scattered by the defects, and so this light stays in the
4 material and continues to travel down the guide.

12:26:50 5 Obviously, the leakiness of the waveguide is something
6 that one skilled in the art understands and could easily
7 control to accomplish the desired optical function of the
8 waveguide.

12:26:51 9 Now consider the class of optical materials and
10 elements commonly known as diffusers. These have been used
11 for many years to help remove structure or the readily
12 discernible brightness variations associated with the physical
13 location of one or more sources of light. Most of the people
14 would identify a diffuser very quickly by its white, milky or
15 translucent appearance. Other examples of diffusers that
16 everyone is familiar with are lampshades, channel lettering
17 and frosted light bulbs.

12:26:55 18 Diffusers use both surface roughness and material
19 nonuniform to scatter light in some kind of predetermined
20 manner. The characteristic white, milky or translucent
21 occurrence of diffusers comes from how these elements interact
22 with light.

12:26:56 23 The best way to understand this behavior is to follow
24 a single light ray as it travels through the diffuser.
25 whether it occurs on the surface of the material or within its

1 bulk or some combination of these two effects, a diffuser
2 causes the input light way to emerge from the material with
3 some definable output distribution. This distribution is
4 usually centered on the direction of the ray input angle.

12:26:59 5 Can you please pull up the next slide? And this is
6 demonstrating that point.

12:26:59 7 A strong diffuser is one which can scatter the input
8 rays in all directions so that the directions of the original
9 input rays are completely lost. This simply means that you
10 cannot see the light source. An example of this is a very
11 good lampshade. A weak diffuser is one that scatters the
12 input rays into a much smaller range of output angles, and the
13 basic directions of the input rays are still maintained to
14 some extent. This simply means that you can identify the
15 light source, or can think about a cheap lampshade where you
16 can still see the light bulb.

12:27:03 17 It is the breaking up of the input ray angles from the
18 light source that gives a diffuser its hiding power -- or its
19 ability to break up the image of source so that all that can
20 be seen is a glow without specific form.

12:27:05 21 Also, it is this breaking up or scattering of the
22 input light that gives diffusers their whitish appearance.

12:27:05 23 As you could see from my experiment, the Fallon signs
24 do not use a waveguide that preferentially scatters light, but
25 a simple but strong diffuser that scatters light more or less

1 uniformly. Therefore, it is my opinion that the Fallon signs
2 do not use preferentially scattering of light.

12:27:07 3 Okay. Now let's talk about another limitation that is
4 not found in the Fallon signs. Interior light reflecting
5 surfaces.

12:27:08 6 The Fallon designs do not have interior light
7 reflecting surfaces as defined by the court. In fact, all of
8 the surfaces inside and out are dark and made of the same
9 plastic.

12:27:09 10 MR. SCRUTON: Your Honor, may we approach?

12:27:09 11 THE COURT: Yes.

12:27:09 12 (Whereupon, a bench conference was held, out of the
13 hearing of the jury, to wit:)

12:27:10 14 MR. SCRUTON: I think he substituted dark for black.

12:27:10 15 MR. SAWYER: I think Mr. Hathaway probably understood
16 that Your Honor was concerned with the term "black". I didn't
17 instruct him to do so but, if he had black I think he's trying
18 to follow Your Honor and substitute the word for it.

12:27:11 19 THE COURT: Well, if I struck a word, the word is out.
20 You can substitute a word for it.

12:27:12 21 MR. SAWYER: Your Honor, that part wasn't objected to.
22 That wasn't part of the objections in the script.

12:27:12 23 MR. SCRUTON: The objection -- well, --

12:27:12 24 MR. SAWYER: That wasn't specific.

12:27:12 25 MR. SCRUTON: That wasn't specific.

12:27:13 1 MR. SAWYER: You are right, Your Honor. We didn't go
2 through line by line to strike every time the word "black",
3 because -- the signs are black. We can do that. I think Mr.
4 Hathaway I don't think there is a discussion whether black
5 means it is or isn't light reflecting.

12:27:15 6 THE COURT: This thing is not working. What do you
7 say? The objection to it wasn't earlier objected to.

12:27:16 8 MR. SCRUTON: I don't have an objection to from,
12:27:16 9 but --

12:27:16 10 MR. SAWYER: It's not highlighted in my version.

12:27:16 11 MR. SCRUTON: I'm not sure what page we're on.

12:27:16 12 MR. SAWYER: Your Honor, black, I don't believe is --
12:27:16 13 (End of bench conference.)

12:27:16 14 THE COURT: Ladies and gentlemen of the jury, we're
15 going to take a brief recess. Please don't discuss the
16 evidence amongst yourselves until you receive all of the
17 evidence, the argument of counsel, and the charge of the
18 court. It should be a brief recess.

12:27:18 19 (Jury out.)

12:27:18 20 THE COURT: I don't recall the specific objection to
21 the use of the word "dark".

12:27:19 22 MR. PRICE: Well, the word dark was not used in the
23 script. He substituted the word dark in place of the word
24 black, which was in the script.

12:27:20 25 THE COURT: I don't want any substitution of words.

1 If I struck a word gone, it's gone.

12:27:20 2 MR. SAWYER: Your Honor, --

12:27:21 3 THE COURT: If I struck a sentence, it's gone.

12:27:21 4 MR. SAWYER: Your Honor, and we agree with that.

12:27:22 5 THE COURT: No, it's not a matter of agreeing, it's a
6 matter of compliance.

12:27:22 7 MR. SAWYER: Your Honor, we complied with everything
8 Your Honor struck. This was done earlier. I believe Mr.
9 Hathaway heard some of our discussion, and I am certain that
10 he thought replacing the word black --

12:27:23 11 THE COURT: No, he can't take it upon himself to
12 decide what goes into evidence.

12:27:23 13 MR. SAWYER: I understand, and I will instruct him. I
14 will tell him not to do that.

12:27:24 15 THE COURT: Well, that's the purpose of the narrative
16 so we don't get into these problems. He follows the Court's
17 instructions based upon the narrative that was presented. He
18 reads from the narrative and he doesn't improvise. Because
19 otherwise, we get into the problems we're having now. He
20 starts adding things that nobody has known of before.

12:27:26 21 THE WITNESS: I'm sorry, Your Honor. I was doing
22 exactly that, which is -- it was not struck, and I was trying
23 to comply with what I thought would be objected.

12:27:27 24 MR. SAWYER: I will instruct him to just read from the
25 narrative.

12:27:27 1 THE WITNESS: Yeah, I will just do that.

12:27:28 2 THE COURT: Bring the jury back in.

12:27:28 3 MR. SAWYER: Thank you.

12:27:28 4 (Jury in.)

12:27:29 5 THE COURT: You may be seated.

12:27:29 6 You may continue.

12:27:30 7 THE WITNESS: It is important to note that all
8 material that is visible, even a clear window, is both
9 reflective and absorptive.

12:27:31 10 I think It might be helpful if I give you a little bit
11 of background on light reflectivity. In general, there are
12 two types of reflectivity: Specular, or mirror-like, and
13 diffuse. It is important that whether a surface reflects in a
14 specular manner or in a diffuse manner, this will not indicate
15 which surface reflects more light. In fact, many diffuse
16 surfaces such as a good, flat white paint will reflect more
17 total light than a shiny specular mirror surface.

12:27:34 18 In my opinion, because the principal goal and teaching
19 of the patent is to achieve an uniform neon-like glow, a
20 diffuse reflective surface would be better than a specular
21 one.

12:27:35 22 I find Dr. Roberts' analysis of the Fallon sidewalls
23 misleading. He reported that the Fallon sidewalls had a
24 reflectivity of 5 to 5.5 percent. In my opinion, and anyone
25 with knowledge of optical properties of materials in general,

1 it would not only -- it would be not only difficult but very
2 expensive to produce any surface with a reflectivity much
3 below five percent. So, in essence, Dr. Roberts is calling a
4 surface that is less reflective than most common surfaces a
5 light reflective surface.

12:27:39 6 In addition, the difference between the reflectivity
7 of the outer surface of the Fallon signs and the inner surface
8 is only about 5 to 8 percent. First, this difference is very
9 minimal and would be undetectable to the human eye. Second,
10 this only demonstrates that both the outer and inner surfaces
11 of the signs are poor reflective surfaces, not that the inner
12 surface is a reflective surface.

12:27:41 13 To demonstrate the unreasonable nature of iLight's
14 position, in my lab I measured the integrated reflectivity of
15 the Fallon Super Bright Open sign's black sidewalls using an
16 integrating sphere. This method will produce a much more
17 meaningful result than the method Dr. Roberts testified about,
18 because it takes into account both Fresnel surface reflection
19 and the bulk reflectivity of the material.

12:27:44 20 First I removed a section of the black plastic
21 sidewall from the letter N in the Fallon Super Bright Open
22 sign.

12:27:45 23 Next slide, please.

12:27:45 24 In this picture, Exhibit 1080, it shows the instrument
25 that I used and the test set-up for the measurement.

12:27:46 1 This is the integrating sphere, and this is where the
2 actual sample would go. That's how the measurement was made.

3 The integrated reflectivity of the inner sidewall of
4 the Fallon Super Bright Open sign was measured to be 3.65
5 percent. This is a very important result, as it proves by
6 direct measurement that the Fallon black plastic sidewalls are
7 truly black.

12:27:48 8 In contrast to the very poor reflective sidewalls, to
9 show you what -- in contrast to the very poor reflective
10 sidewalls, to show you what a reflective sidewall would be to
11 one skilled in the art, I performed another experiment in my
12 lab.

12:27:50 13 First, using a Fallon Open sign, I measured the
14 surface brightness of a nine millimeter spot of the diffuser
12:27:51 15 located in the lower right-hand quadrant of the letter O.

12:27:52 16 Next, I installed reflective surface films on the inner
17 sidewalls of the O around the location of my measured spot,
18 and extending approximately 5.5 inches in either direction
19 away from the spot.

12:27:53 20 With the reflective films installed, the brightness of
21 the spot was remeasured. The brightness of the diffuser
22 increased approximately 60 percent as a result of the
23 reflective films. This clearly shows that the Fallon black
24 plastic sidewalls, the intended use of which is strictly for
25 mechanical mounting of the LED printed circuit boards are

1 quite poor as reflectors. Recall that Dr. Roberts' test in
2 which he removed the black plastic sidewalls altogether only
3 produced an insignificant decrease in the intensity of the
4 front diffuser.

12:27:57 5 This result, combined with my test, conclusively
6 proves, in my opinion, that the Fallon black plastic sidewalls
7 are quite absorptive rather than being reflective.

12:27:57 8 It is simply wrong to assume, as Dr. Roberts does,
9 that because the inner sidewalls of Fallon's accused signs are
10 somewhat specular that they are also reflective as required by
11 the claims.

12:27:58 12 As shown by Dr. Roberts' measurements, these black
13 surfaces reflect far too little light to meet the reflective
14 requirement as defined by the Court.

12:27:59 15 Finally, let's turn to the exterior light absorbing
16 surfaces. As I discussed, the Fallon sign uses the exact same
17 plastic to form the entire body of the sign. In my opinion,
18 this plastic cannot be both reflective and absorptive. The
19 absorptive surfaces as defined by the Court must absorb light
20 on the exterior of the sign. Again, this concept is easily
21 identified in the picture of the iLight commercial sign.

12:28:02 22 All but one of the sidewalls identified by the iLight
23 -- by iLight on the Fallon products cannot be seen when the
24 sign is being used. They are all in the interior of the sign.
25 Therefore, it is my opinion that the Fallon signs do not have

1 exterior light absorbing surfaces because they don't have
2 exterior visible surfaces.

12:28:05 3 I am now going to go through some detail for some of
4 the Fallon signs.

12:28:05 5 Each of the signs, although they look generally the
6 same, are all constructed a little differently. Each uses a
7 different amount of LEDs, different colored LEDs, and
8 different LED spacing. This, again, confirms my belief that
9 Fallon's signs are nothing more than back lit signs using a
10 diffuser.

12:28:07 11 Could you bring me -- could you hold up Exhibit 728.

12 This is the Budweiser Bowtie Opti-Neon sign. It is an
13 injection molded sign made of hard black plastic. It has an
14 upper body and lower body. Importantly, all of the inner
15 components of the sign, the inner surfaces of both the upper
16 and lower body are made from the same black plastic. The only
17 difference in the inner and outer surfaces is that the outer
18 surfaces of the two bodies are patterned, and the inner
19 surfaces are smooth.

12:28:11 20 It is my understanding that the inner surfaces are
21 smooth due to the injection molding process. In fact, it is
22 my understanding that if the inner surface contained a surface
23 pattern, it would be more difficult to remove the plastic from
24 the mold. In addition, the outer and inner surfaces of the
25 upper and lower bodies have nearly identical optical

1 properties. The Bowtie has a white hollow translucent
2 diffuser that covers the openings that spell out Budweiser.
3 The letters are back lit using white LEDs.

12:28:15 4 The sign further includes three hollow translucent
5 diffusers that cover the Bowtie, which are back lit by red
6 LEDs. The Bowtie contains no internal housing in which the
7 LEDs are mounted. The diffusers are made of a simple plastic
8 and are hollow or tubular. The diffuser is thin and not a
9 rod, nor is it rod-like.

12:28:18 10 The diffuser material is a translucent plastic
11 material of relatively constant thickness that scatters light
12 in all directions equally. It is, in my opinion, the same as
13 the diffusive plastic materials used in channel lighting for
14 many years.

12:28:19 15 Doug, please hold up Plaintiff's Exhibit 12.

12:28:20 16 This is the old Budweiser Bowtie Opti-Neon sign. Like
17 the Bowtie, it is an injection molded sign made of hard black
18 plastic, and it's basically the same as the last sign I showed
19 you. One difference is, this sign has three white hollow
20 translucent diffusers that cover the Bowtie, which are back
21 lit by red LEDs, instead of the red diffuser.

12:28:23 22 Also, this sign has an inner housing that is black
23 which connects to the printed circuit boards.

12:28:24 24 Doug, next hold up Exhibit 13, the Super Bright sign.

25 This is the Super Bright sign. Again, this sign is

1 constructed like the two Bud signs. The upper body contains
2 openings in the shape of Open and also includes five
3 additional openings that make an oval line art shape around
4 the word Open.

12:28:26 5 The Super Bright has a red hollow translucent diffuser
6 that cover the openings that spell out O-P-E-N. The letters
7 are back lit using red LEDs. The sign further includes five
8 blue hollow translucent diffusers that cover the oval line art
9 which are back lit by blue LEDs.

12:28:27 10 Like the Bud signs, the inner projections that seat
11 the circuit board are not viewable when the sign is fully
12 assembled. Therefore, the outside of the surface --
13 therefore, the outside of the surface of the projections are
14 not visible when the sign is being used.

12:28:29 15 Doug, could you hold up Exhibit 725.

12:28:30 16 This is the Xenon sign, Open sign. It is an injection
17 molded sign made of hard black plastic like the other three
18 signs. The difference in this Open sign versus the last one
19 is it is smaller, and you can see all of the diffusers are
20 white and back lit with colored LEDs.

12:28:31 21 Now that you have had a chance to see the signs in
22 question, and we have discussed generally the claim terms at
23 issue, I want to talk about some specifics. Although this may
24 get a little repetitive, it is important that I go through
25 each claim and compare all the words of the claim against each

1 product. In doing this, I will point out in each claim the
2 missing limitations in the Fallon signs.

12:28:34 3 Let's start with the '238 Patent, Claim 8. Please put
4 up the slide.

12:28:35 5 The procedure I will go through is I will put up first
6 the entire claim.

12:28:35 7 And now the next one?

12:28:35 8 And then only the limitations part of it.

12:28:36 9 Claim 8 requires "a substantially rod-like member".

10 It is my opinion that the accused Fallon signs do not have a
11 rod-like member. In fact, each of the accused devices
12 contains a hollow curved diffuser.

12:28:37 13 Claim 8 also requires the device prefer
14 "preferentially scatters light entering said light receiving
15 surface into an elongated light intensity pattern".

12:28:38 16 It is my opinion that the Fallon signs use hollow
17 diffuser that scatter light in all directions equally.
18 Therefore, they do not preferentially scatter the light.

19 Claim 8 requires having a "pair of sidewalls".

12:28:40 20 The Bowtie sign does not contain any sidewalls in the
21 lettering portion. By the way, it is important, because for
22 each of the claims that requires sidewalls, signs without
23 sidewalls would be easy to implement in a satisfactory
24 noninfringing alternative.

12:28:41 25 Claim 8 requires that the sidewalls contain "an

1 exterior light absorbing surface".

12:28:41 2 As I have explained, the exterior light absorbing
3 surface of the sidewall must absorb light on the exterior.
4 All the sidewalls, except for those on the new Bud Bowtie, are
5 hidden between the upper body and lower body of the sign and
6 are not exterior.

12:28:43 7 Since all of the Fallon signs do not have at least the
8 elements described above, they do not infringe Claim 8.

12:28:44 9 Now let's turn to Claim 25. Can I have the slide?
10 And now the next slide.

12:28:44 11 Claim 25 requires that the light transmitting member
12 "being comprised of a material that has both optical waveguide
13 and light scattering properties".

12:28:45 14 The accused sign has thin hollow diffusers, not
15 optical waveguides. Claim 25 requires that light transmitting
16 member "preferentially scatters light entering said light
17 receiving surface into an elongated light intensity pattern on
18 said light emitting surface".

12:28:47 19 Fallon's signs do not preferentially scatter light,
20 but instead contain a diffuser that scatters light equally in
21 all directions.

12:28:48 22 Claim 25 requires that the sidewalls have "an interior
23 light reflecting surface". As discussed, the Bowtie sign has
24 no sidewalls, and, therefore, no interior light reflecting
25 surface.

12:28:49 1 Like Claim 8, Claim 25 requires that the sidewalls
2 contain "an exterior light absorbing surface". Further, as I
3 discussed earlier, the exterior light absorbing surface of the
4 sidewall must be exterior. The sidewalls of the Fallon signs,
5 except for the new Bud Bowtie, are hidden between the upper
6 body and lower body of the sign and are not exterior.

12:28:52 7 Since all of the Fallon signs do not have at least the
8 elements described above, they do not infringe Claim 25.

12:28:52 9 Now turn to Patent '262, Claim 1. And can you put up
10 the next slide please. And now the focus slide. Claim 1
11 requires "an essentially solid, leaky waveguide rod".

12:28:54 12 The Fallon signs do not have a waveguide rod as
13 defined by the Court. Claim 1 requires having a housing
14 positioned externally and adjacent to said waveguide rod and
15 defining a volume that encompasses said elongated light
16 source. The Bowtie sign does not have such housing on the
17 letters.

12:28:56 18 Claim 1 requires that the "light is preferentially
19 directed along the predetermined length of the leaky waveguide
20 rod exiting said light emitting surface in an elongated light
21 intensity pattern. In my opinion, this term has the same
22 meaning as preferentially scatter, the hollow diffusers on --

12:28:57 23 THE COURT: Ladies and gentlemen of the jury, the
24 Court is going to instruct you to disregard the last remark,
25 statement of the witness.

12:28:58 1 You can start with your next sentence.

12:28:58 2 THE WITNESS: Okay.

12:28:59 3 All of the Fallon signs do not have at least the
4 elements described. They do not infringe Claim 1.

12:28:59 5 Now let's look at Claim 8.

12:29:00 6 First, Claim 8 is dependent on Claim 1. As you know,
7 in order to infringe Claim 8, the signs must have all of the
8 elements of Claim 1, plus the elements in Claim 8. As I have
9 just told you that the signs don't infringe Claim 1, they
10 can't infringe Claim 8. However, I will go through the
11 limitations found in Claim 8.

12:29:02 12 Can I have the slide?

12:29:02 13 Claim 8 requires "said sidewalls have externally light
14 absorbing surfaces".

12:29:03 15 As I have already discussed, the sidewalls must be on
16 the exterior of the device. The sidewalls of the Fallon
17 signs, except for the new Bud Bowtie, are hidden between the
18 upper body and lower body of the sign and not external.

12:29:04 19 Since all of the Fallon signs do not contain at least
20 the elements of Claim 8 and those found in Claim 1, they do
21 not infringe Claim 8.

12:29:05 22 Now turn to the last patent, the '970 Claim 1.

12:29:05 23 Can I have the slide? And now the next slide?

12:29:06 24 Claim 1 requires "a rod-like member". As discussed,
25 the Fallon signs do not have such a rod. In fact, each of the

1 accused devices contains a hollow curved diffuser. Since the
2 Fallon signs do not have at least the elements described, they
3 do not infringe Claim 1.

12:29:08 4 Now let's look at Claim 5.

12:29:08 5 Can I have the slide?

12:29:08 6 Claim 5 requires "an essentially solid, leaky
7 waveguide rod". As discussed, the Fallon signs do not have
8 such a waveguide rod. In fact, each of the accused devices
9 contains a hollow curved diffuser.

12:29:08 10 Since all of the Fallon signs do not contain at least
11 the elements described, they do not infringe Claim 5.

12:29:09 12 Now let's look at Claim 8.

12:29:09 13 Can I have the slide? And the next slide?

12:29:10 14 Claim 8 requires "a rod-like member". As discussed,
15 the Fallon signs do not have such a member. In fact, each of
16 the accused devices contains a hollow curved diffuser.

12:29:11 17 Since all of the Fallon signs do not contain at least
18 the elements described, they do not infringe Claim 8.

12:29:12 19 Now I want to talk about invalidity. As I have told
20 you, it is my opinion that the iLight patents are invalid as
21 anticipated by the Slayden patent. The Slayden patent, which
22 is assigned to Lektron, another lighting company, disclosed
23 each and every element of the iLight patents before iLight
24 applied for its patents. The actual Lektron device, as you
25 will see, also functions in exactly the same way as the iLight

1 patents claim is new and would be a noninfringing alternative.

2 As I have told you, iLight argued to the Patent

12:29:16 3 office --

12:29:16 4 THE COURT: Excuse me. Ladies and gentlemen of the
5 jury, you are going to hear some reference to some Lektron
6 products. The Court is going to instruct you, as I stated
7 earlier, there will be times during the course of the trial
8 when evidence is admitted for a limited purpose. This is one
9 of those instances.

12:29:18 10 The testimony about Lektron products related to the
11 Slayden patent is introduced and to be considered by you for
12 the limited purpose of whether there is a noninfringing --
13 whether this Lektron product is a noninfringing alternative,
14 and whether the Slayden patent works for signage, which is the
15 principal product at issue here. The Lektron product was
16 produced after iLight filed for its patent in this case, and
17 that is the purpose for which it is being admitted. Very
18 limited purpose.

12:29:21 19 Any objections to the instruction?

12:29:21 20 MR. KITTREDGE: No, Your Honor.

12:29:21 21 MR. SAWYER: No, Your Honor.

12:29:21 22 MR. SCRUTON: No, Your Honor.

12:29:21 23 THE COURT: All right. You may continue.

12:29:22 24 THE WITNESS: Thank you, Your Honor. As I have told
25 you, iLight argued to the Patent Office that the Slayden

1 patent was different than it was claiming, and now iLight and
2 Dr. Roberts have retreated from those arguments. In fact, if
3 you use Dr. Roberts' infringement analysis in a consistent
4 manner, the patents have to be invalid. You just cannot apply
5 the patents the way Dr. Roberts does, find infringement,
6 without capturing the prior art.

12:29:24 7 The easiest way to see iLight's inconsistency is with
8 a reference to the Slayden patent. As you have heard, iLight
9 now argues that Fallon's thin walled diffusers are covered by
10 its patent claims. But iLight told the Patent Office that
11 Slayden's simulated neon light was different than iLight's
12 patents because Slayden only disclosed a thin walled diffuser,
13 and iLight's invention required a solid rod waveguide.

12:29:27 14 Let me show you really quickly what I mean.

12:29:27 15 Please put up the slide.

12:29:28 16 As you can see, the Fallon signs use a thin walled
17 diffuser, and there is no rational scientific difference
18 between it and the diffuser disclosed by Slayden's simulated
19 neon light patent.

12:29:29 20 There are other important details that I will discuss
21 later. But next I would like to give you a broader picture of
22 my invalidity opinion.

12:29:30 23 I will begin my analysis with giving you a summary of
24 what was known prior to the time iLight filed its patents.

12:29:31 25 As I have already explained, the term "waveguide" has

1 a specific well-known meaning to one schooled in the art. A
2 waveguide with scattering properties, part of a broader
3 category of components or devices sometimes identified as
4 leaky waveguides in the art, was also well known and disclosed
5 in many prior art patents.

12:29:33 6 To be clear, iLight did not invent leaky waveguides --
7 excuse me, invent rear lit leaky waveguides, LEDs, reflective
8 sidewalls, diffusers or simulated neon. All of these concepts
9 had been in the past -- had been used in the past. In fact,
10 all of these elements were well understood and had very
11 predictable uses, and any combination of such elements will
12 produce an expected result.

12:29:36 13 Please pull up Exhibit 77.

12:29:36 14 We are now -- now we already talked about the Slayden
15 patent during the noninfringement portion of my testimony and
16 how iLight told the Patent Office its concept was somehow
17 different. If you look at the application date, which is on
18 the first page, you can see the patent was filed on August 2,
19 2000, which is before the filing date of the iLight patents.

12:29:39 20 Keep this in mind during this discussion, the key
21 elements iLight highlighted to the Patent Office were: solid
22 rod, preferentially scatters light, and light reflective
23 surfaces.

12:29:41 24 Let's take a closer look at what the Slayden patent
25 discloses.

12:29:41 1 First, note the title of the patent: Simulated neon
2 light using LEDs. Therefore, we know for sure that iLight did
3 not invent simulated neon lights. And especially did not
4 invent simulated neon lights using LEDs in a channel with a
5 round plastic member.

12:29:44 6 An important point that appears to have been missed by
7 the Patent Office is that Slayden actually teaches a
8 configuration that would behave exactly as described in the
9 patents-in-suit -- a diffuser that acts as a combined optical
10 waveguide, again, as described in the iLight patents and as a
11 scatterer. This is now a very important fact, considering how
12 Dr. Roberts and iLight are now asserting that the thin
13 diffuser that Fallon uses is somehow different than the
14 diffuser used in Slayden.

12:29:47 15 In fact, Slayden correctly and quite accurately
16 describes the iLight waveguide and light scattering functions
17 in the Slayden patent specification.

12:29:48 18 First, let's consider the scattering function.

12:29:48 19 If we look at Column 1, Line 41, Slayden describes the
20 diffuser as translucent. The term translucent refers to the
21 milky appearance, which is common in diffusers. In addition,
22 we can look at Column 4, Lines 45 through 53, stating the
23 light is refracted. The term refracted in this case has the
24 same meaning in my opinion as scattering, only in Slayden the
25 light must refract through the walls of the diffuser two

1 times.

12:29:51 2 THE COURT: Ladies and gentlemen of the jury, the
3 Court is going to instruct you to disregard the last reference
4 to the meanings of claims. As the Court told you at the
5 outset of this case, there are two aspects of this case. One
6 is the construction or interpretation of claims. The other
7 one is whether the defendant's product, in fact, infringes
8 upon the claim. So any testimony concerning what a claim and
9 a patent means is a question for the Court, not for the
10 witness.

12:29:54 11 You may continue.

12:29:54 12 THE WITNESS: Thank you, Your Honor.

12:29:55 13 Only in Slayden the light must refract through the
14 walls of the diffuser two times -- once on the way into the
15 bottom portion of the diffuser, facing the light source, and
16 once on the way out of the upper portion of the diffuser on
17 the way out toward the viewer.

12:29:56 18 This transition through the diffuser will scatter or
19 refract the light and to obscure the particular light source.

20 Could you please pull up the next slide.

12:29:57 21 So in this slide we have highlighted some language in
22 the patent that describes the light scattering properties, and
23 there are many more examples of this language in the Slayden
24 patent.

12:29:58 25 Now let's look at the Slayden patent again.

12:29:59 1 Please pull up Exhibit 77 and go to Column 4, Lines 48
2 to 50.

12:30:00 3 It describes the iLight waveguide function. It says:
4 In addition, the inner and outer walls of the diffuser
5 10 provide reflective light through the cross section of the
6 tube, 11.

12:30:01 7 This is exactly the light directing properties claimed
8 in the patents-in-suit. You will remember, the waveguide or
9 light directing function is reflecting the light to keep it
10 within the waveguide as it travels the length of the
11 waveguide.

12:30:03 12 So Slayden has explicitly described both waveguide and
13 scattering properties.

12:30:03 14 would you pull up the Slayden summary slide?

12:30:03 15 Let's look one more time to the Slayden patent.

16 Please pull up Exhibit 77. And again go to Column 4,
17 Lines 51 to 53.

12:30:04 18 It describes in the very same sentence these two
19 properties that iLight claimed was new. It is believed that
20 this combination of reflected and refracted light in the
21 translucent tube is what affords the neon-like glow of the
22 fixture.

12:30:06 23 Please pull up the Slayden summaries slide.

12:30:06 24 Now we have seen that the Slayden patent describes
25 both waveguide and light scattering properties. To put that

1 into terms consistent with the iLight patents, this would be
2 preferentially scattering light.

12:30:07 3 It is my opinion that the Slayden diffuser as
4 described in the Slayden patent would exhibit both waveguide
5 and diffuser properties and that is, it would preferentially
6 scatter light.

12:30:09 7 Now let's look at the mechanical set-up of the Slayden
8 device.

12:30:09 9 Please put up the next slide.

12:30:10 10 In this slide you can see that the Slayden device is
11 set up in the same way as the iLight patents. In the slide
12 you can see that Slayden shows a row of LEDs in a channel
13 below a rod-shaped member. The channel has sidewalls, and the
14 patent tells us it simulates neon. The Slayden patent does
15 not specifically mention that its sidewalls are reflective,
16 however, as I've already discussed, the way Dr. Roberts and
17 iLight are applying that in this case, in my opinion, any
18 sidewall would meet that limitation.

12:30:13 19 Now I have just explained that Slayden by itself
20 discloses all of the limitations that the iLight patents
21 claim. But for the record, I need to march through each of
22 the claims of each of the limitations step by step. Again,
23 just bear with me while I do that. I am going to use a chart
24 that I prepared, because I think it will make it easier for to
25 you follow along. Let's take a look at the chart.

12:30:17 1 Please pull up Exhibit 742.

12:30:17 2 This is a claims comparison chart. On the left will
3 be the iLight patent, and specifically claims broken up into
4 little pieces of the claims as it reads. And then on the
5 right will be our answer to where we find that same function
6 in the prior art.

12:30:19 7 If you look at this chart -- and I will read it for
8 you -- it is my opinion, as one skilled in the art, that
9 Slayden alone invalidates the patents. In addition, it would
10 have been obvious to one skilled in the art to combine the
11 other patents listed on this chart with the Slayden patent to
12 come up with all of the elements of the asserted claims.

12:30:21 13 Some of the other patents I rely on in finding the
14 iLight patents are invalid as obvious are --

12:30:21 15 would you please pull these up for the jury.

12:30:22 16 Exhibit 73, U.S. Patent Number 4,901,207.

12:30:22 17 Exhibit 75, U.S. Patent Number 6,481,380.

12:30:22 18 Exhibit 748, U.S. Patent Number 6,244,734.

12:30:22 19 Exhibit 76, U.S. Patent Number 6,354,714.

12:30:22 20 And Exhibit 74, U.S. Patent Number 5,016,143.

12:30:25 21 Now please put back up Exhibit 742.

12:30:25 22 So we have on the left, this is the '238 iLight '238
23 Patent, Claim 8. And it says, "an illumination device for
24 simulating neon lighting, comprising".

12:30:27 25 And you see in the Slayden patent, it states, "in

1 accordance with the invention, the neon light was simulated
2 using light emitting diodes as a light source". I consider
3 those to be the same thing.

12:30:28 4 "A substantial rod-like member".

12:30:30 5 If you look at Figures 1 and 2, it shows an obvious
6 rod-like member in the Slayden patent.

12:30:30 7 "Having a predetermined length".

12:30:31 8 In the Slayden patent, it makes a reference to
9 "preferably the length -- the lights will be constructed in
10 modular lengths, etc., etc." So it's clearly predetermined.

12:30:32 11 "With a lateral light receiving surface and a lateral
12 curved light emitting surface having a predetermined
13 circumferential width".

12:30:33 14 And Slayden says, "An elongated translucent diffuser
15 of circular cross section".

12:30:33 16 Also, you can look at the figures in the patent, which
17 we aren't putting up, if you have them available to you.

12:30:34 18 Next, "said member being comprised of a material that
19 has both optical waveguide and light scattering properties
20 that preferentially scatters light entering said light
21 receiving surface into a light intensity pattern with a major
22 axis extending along said predetermined length".

12:30:36 23 In the Slayden prior art, it talks about "the
24 plurality of light emitting diodes aligning the linear array
25 in the chamber, the plurality of diodes is connected in the

1 electrical power source. The light emitting from the diodes
2 can only pass from the chamber into the wall of the diffuser".

3 So clearly they are making direct reference to the
4 same thing.

12:30:38 5 And also, we find similar -- in other prior art, we
6 find the same type of disclosure.

12:30:39 7 MR. SCRUTON: Your Honor, may we approach for a
8 moment, please.

12:30:39 9 (Whereupon, a bench conference was held, out of the
10 hearing of the jury, to wit:)

12:30:39 11 MR. SCRUTON: I'm concerned that we're off script.
12 This is the portion that he said. Exhibit 752, and now he's
13 proceeding to read this chart and editorializing.

12:30:40 14 MR. SAWYER: Our understanding at the pretrial
15 conference, that one of the things I think the plaintiff
16 requested is that we give the experts a little bit of leeway
17 to explain the charts. And this is a very important part of
18 my understanding, Your Honor.

12:30:42 19 THE COURT: I think both sides had a little latitude.

12:30:42 20 MR. SCRUTON: We had a very, very lengthy discussion.

12:30:43 21 MR. SAWYER: Your Honor, this has been represented to
22 the jury anyway. He's not going to read it word for word, and
23 we don't want him to, Your Honor, because we're comparing.

12:30:44 24 THE COURT: My concern is he's getting at the context
25 of the claims. The contexts are not in exhibit.

12:30:45 1 MR. SAWYER: well, he asked to define -- he has to
2 conclude that Your Honor claim interpretation. He needs to
3 explain where in his opinion Your Honor's claim construction
4 is found in the prior art. He is not trying to redefine
5 claims. He's trying to say these things in the prior art meet
6 these limitations. He really has to do that.

12:30:47 7 THE COURT: Interpreting claims of the patent. The
8 claims in the patent are not claims in the --

12:30:48 9 MR. SAWYER: He's trying to use your claim
10 interpretation to show it's found in the prior art. He's not
11 interpreting the claims. He's disclosing specifications,
12 discloses the same elements that Your Honor already --

12:30:49 13 THE COURT: That's interpreting what the Court's
14 definition is.

12:30:50 15 MR. SAWYER: Your Honor, in order to find obvious
16 anticipation, one skilled in the art has to find --

12:30:50 17 THE COURT: I'm going to take a break.

12:30:50 18 (Conclusion of bench conference.)

12:30:50 19 THE COURT: Ladies and gentlemen of the jury, we're
20 going to go ahead and take our luncheon recess. Please don't
21 discuss the case amongst yourselves until you receive all of
22 the evidence, the argument of counsel and the charge of the
23 Court. You can leave your notebooks on your chairs. You can
24 pass your note pads to the Marshal. He will take custody of
25 them until you return. If you will report upstairs, then the

1 Marshal will come get you when we are ready for you
2 downstairs. Thank you.

12:30:53 3 (Jury out.)

12:30:54 4 The court: Are there any matters before we take a
5 recess?

12:30:54 6 MR. VEZEAU: One thing, Your Honor. Your Honor, that
7 was my cell phone, and I apologize to the Court.

12:30:55 8 THE COURT: Under our local rules they are not
9 supposed to be active.

12:30:55 10 MR. VEZEAU: Yes, I apologize, Your Honor.

12:47:41 11 THE COURT: Any other matters? We're in recess.

13:00:16 12 (Recess.)

13:00:44 13 THE COURT: Are there any preliminary matters?

13:00:48 14 MR. SAWYER: Just one minor one, Your Honor. The
15 parties have talked, and that chart that we were discussing at
16 the -- when Mr. Hathaway resumes, I will let the jury know
17 that we're going to enter into evidence and we can move on to
18 sort of move things along and also take care of some of your
19 other questions you had about the chart.

13:01:11 20 THE COURT: Any matters from the plaintiff?

13:01:15 21 Concerning the Court's earlier remark about whether
22 Slayden would be an expert, I'm persuaded by the opinion in
23 Hynix Semiconductor Inc. v. Rambus Inc. 2009 Westlaw 230039
24 from the Northern District of California, January 27, 2009,
25 that an inventor could be someone who was ordinarily skilled

1 in the art without being an expert. At least that's the gist
2 of what I get from it. And so I don't think that Slayden
3 would be an expert. So that aspect of the issue is resolved.

4 The question that I had, and the reason I struck a
5 statement made by the expert, and we had this issue at the
6 bench conference, is my understanding of federal circuit law,
7 this is Sundance Inc. v. Demonte Fabricating Limited, 550 F.3d
8 1356 at 1364, note six, where they are talking about expert
9 testimony in these cases. And this was in the context of
10 obviousness. And they make a reference to the fact that
11 whether a qualified expert could testify -- I'm quoting now --

12 whether a qualified expert could testify as to the
13 ultimate question of obviousness is, of course, left to the
14 discretion of the District Court. We note, however, that our
15 court has held that allowing a witness to testify before the
16 jury on claims construction would be improper. Citing another
17 authority of the federal circuit, Cytologix Corp. v. Ventana
18 Medical Systems Inc. 424 F.3d 1168, 1172, noting that, quote:

19 The risk of confusing the jury is high when experts
20 opine on claims construction before the jury. So whenever I
21 heard the witness testifying as to -- I think that he can
22 testify as to whether some technical fact qualifies under what
23 the Court has defined. But I heard him testifying as to what
24 one claim was in one patent and one claim was in another
25 patent, and to me that's claim construction. And that's the

1 part I thought was not proper. So I don't know if that
2 provides additional guidance to you all on your witness or
3 not.

13:04:06 4 MR. SAWYER: It does, Your Honor. We agree that the
5 expert is not going to testify about claim construction.

13:04:14 6 THE COURT: well, some of his language struck me as
7 the functional equivalent. So I just wanted to explain the
8 rationale for the Court's ruling so you wouldn't think I was
9 being arbitrary with you. Call the witness.

13:04:50 10 You can bring the jury in.

13:04:53 11 (Jury in.)

13:05:19 12 THE COURT: You may be seated. All right, ladies and
13 gentlemen of the jury, we'll resume with the presentation of
14 this witness.

13:05:24 15 CONTINUED DIRECT EXAMINATION

13:05:24 16 BY MR. SAWYER:

13:05:27 17 Q. Before we begin your narrative again, Mr.
18 Hathaway, we were discussing Exhibit 742, which is a chart you
19 prepared that summarizes some of your points here. And the
20 parties have agreed that we'll just enter that into evidence
21 for the jury to review, and you won't have to go through it
22 this afternoon with the jury. So that will be into evidence.
23 And now you can continue with your narrative, following that
24 section.

13:06:09 25 A. Okay. Thank you. Now that I have shown you

1 what the Slayden patent discloses, I want to show you an
2 actual light which is marked with the Slayden patent. I will
3 call it the Lektron light.

13:06:30 4 Judge, may I show that to the jury?

13:06:30 5 THE COURT: All right.

13:06:31 6 THE WITNESS: iLight Exhibit 732. May I show this to
7 the jury?

13:07:18 8 THE COURT: Yes, sir. Without objection, you may pass
9 the exhibit to the jury.

13:07:37 10 THE WITNESS: I ran a number of tests on the Lektron
11 light that demonstrate my points. First, I want to plug it in
12 and show you how it works.

13:07:50 13 Actually, why don't we -- should we let them finish?

13:07:50 14 BY MR. SAWYER:

13:07:53 15 Q. We'll let the jury look at it, and we'll plug
16 it in in a minute.

13:07:56 17 A. Perhaps I should wait.

13:07:58 18 Q. No, go ahead.

13:08:02 19 A. As you can see, the light produces a neon light
20 glow. This would be a noninfringing alternative to simulate
21 neon. Remember, this product has the Slayden patent number on
22 it, but was likely made after the iLight patents were filed.

13:08:27 23 First I want to talk about rod or rod-like. It is key
24 to recognize that the Lektron diffuser is similar in thickness
25 to the Fallon diffusers. Since iLight is now telling you that

1 Fallon's thin diffuser infringes, while the one disclosed in
2 the Slayden patent is different, they are making arguments
3 that in my opinion fit the common sense of science. Given the
4 physical similarity between the Slayden patent's arch shaped
5 diffuser and Fallon's arch shaped diffuser, as a matter of
6 science and common sense, we should apply the claims in a
7 consistent manner. If we can't, there is something wrong.

8 There is one LED removed from there. There is a dark
9 spot in the middle. It's because there is an LED removed.

10 Please pull the next slide.

13:09:44 11 In this chart you can see how thick the diffuser of
12 each product is. You can see from the chart that the Lektron
13 diffuser is 0.055 of an inch thick. The Fallon diffuser is of
14 similar thickness at 0.078 of an inch thick. But remember
15 that the light must travel through two thicknesses of the
16 Lektron diffuser before it emerges to the outside. Therefore,
17 the minimum total thickness of the Lektron diffuser is 0.110
18 of an inch, which, of course, is even thicker than the Fallon
19 diffuser. Compare those thicknesses with the iLight
20 waveguide, which is seven times thicker at 0.56 of an inch
21 thick. These measurements in my opinion clearly demonstrate
22 the difference between a solid rod and thin diffuser. In my
23 opinion, you cannot call a Fallon diffuser a solid rod and not
24 call Slayden's patent diffuser a solid rod.

13:10:54 25 Next I want to talk about preferentially scatters.

13:10:57 1 This is another important point. First, you will recall Dr.
2 Roberts makes a big deal about how in the Fallon signs if only
3 a single LED is illuminated, there appears to be an oblong
4 pattern of light on the diffuser. I showed you earlier that
5 the Fallon diffuser does not preferentially scatter light if
6 you use a larger piece of plastic. However, if you do the
7 same experiment, that is, light a single LED with the Lektron
8 device, which uses the same mechanical set-up as the Slayden
9 patent, you get the very same oblong or elongated light
10 pattern.

13:11:43 11 The LED pitch in the Lektron device is 0.60 of an
12 inch, which, as can be seen in this next slide, is
13 significantly smaller than the length of the region of what
14 appears to be relatively uniform glow through the output
15 portion of the diffuser. And by this I mean if you were to
16 measure the bright uniform spot right there, that is larger
17 than the pitch between two LEDs.

13:12:29 18 I observed and this slide shows that the Lektron
19 device produces an oblong light pattern. In addition, I
20 observed that this design has no problem achieving excellent
21 brightness uniformity, and the LEDs are completely
22 unperceivable from all viewing angles.

13:12:54 23 Now compare this slide to Figure 7 of the patents.
24 Again, oblong.

13:12:59 25 For this next slide you see Lektron device appears to

1 have the elliptical output consistent with the claim term
2 preferentially scattering.

13:13:12 3 Next I want to talk about light reflective surfaces.
4 As you will recall, any surface that you can see will be
5 reflective. The Fallon signs all have black plastic housings,
6 and you can see them. They are reflective in the simple
7 broadest sense of the word. The term reflective is so broad
8 as to capture the Fallon signs if the -- excuse me. If the
9 term reflective is so broad as to capture the Fallon signs,
10 then again, the Slayden patent has to also have reflective
11 sidewalls.

13:13:45 12 Now if you recall from my discussion regarding
13 infringement, I tested the inner wall of the Fallon sign to
14 determine its reflectivity. Again, I remind you that I found
15 that the sidewalls were very poor reflective surfaces -- in
16 fact, so bad, roughly 3.65 percent, that you would have to
17 spend a lot of money and effort to come up with a worse
18 reflective surface.

13:14:14 19 So, now that we are looking at the Lektron device, you
20 might want to know how reflective its sidewalls are.

13:14:21 21 well, good question. I repeated this same measurement
22 using the plastic housing of a sample of the Lektron device.
23 You can see in the set-up of the test I ran in the next slide,
24 which is the same test I ran on the Fallon inner walls.

13:14:42 25 In this case, this is the part that was measured. A

1 closer look at the actual test data shows an even more
2 significant result.

13:14:58 3 Next slide, please.

13:15:02 4 In this next slide I graphed the reflectivity of both
5 the Lektron sidewall and the Fallon sidewall. As you can see
6 in the yellow-green-blue region of the visible spectrum, the
7 Fallon and Lektron sidewalls have nearly identical
8 reflectivity. Both were very poor reflective surfaces. But
9 as the color is shifted into the red portion of the spectrum,
10 the Lektron housing sidewalls become much more reflective,
11 rising to over 60 percent reflectivity.

13:15:39 12 This is expected since the Lektron LED simulated neon
13 product uses red LEDs and produces a deep red output color,
14 simulating a red neon light. Therefore, in the spectral
15 region of red, the Lektron sidewalls are quite reflective.

16 However, as you see in the graph, the Fallon sidewall
17 remains very consistently nonreflective, even in the red
18 portion of the spectrum.

13:16:06 19 I want to thank you for your attention, and I will
20 take only a few more minutes of your time, but I do want to
21 give you a short summary of my opinions in this case.

13:16:16 22 Could you pull up the last slide, please.

13:16:19 23 First, as I have told you, it is my opinion that the
24 Fallon signs do not infringe the iLight patents. I have
25 formed my opinion because the Fallon signs do not have a solid

1 or rod-like waveguide. Instead, they use a thin walled
2 diffuser. The Fallon signs do not preferentially scatter
3 light. They use a use simple diffuser -- again, like Slayden
4 and many other prior art signs. The Fallon signs do not have
5 light reflective surfaces. The Fallon signs that do have
6 sidewalls have black plastic channels which are no more
7 reflective than the outer surfaces.

13:17:03 8 The Fallon signs do not have exterior light absorbing
9 surfaces. Again, the Fallon signs use the same plastic inside
10 and outside of their sign. So the same material cannot be
11 both reflective and absorptive. In addition, the signs'
12 absorptive sidewalls are not exterior.

13:17:20 13 It is also my opinion that the iLight patents are
14 invalid as both anticipated and obvious. I base these
15 opinions on the disclosures of Slayden as well as the other
16 patents I have talked about.

13:17:31 17 In addition, these opinions are especially true in
18 light of Dr. Roberts and iLight's testimony in this case. It
19 is my opinion their testimony ignores many of the arguments
20 iLight was forced to make to distinguish the iLight concept
21 from the prior art, including and especially Slayden.

13:17:49 22 Again, I want to thank you for your attention.

13:18:07 23 THE COURT: You may cross examine.

13:18:07 24 CROSS EXAMINATION

13:18:08 25 BY MR. SCRUTON:

13:18:13 1 Q. Good afternoon, Mr. Hathaway.

13:18:14 2 A. Good afternoon.

13:18:17 3 Q. My name is John Scruton, and I represent
4 iLight. First I'd like to talk to you a little bit and ask
5 you a few questions about your background in patents. Now,
6 you are not an expert in patent prosecution, are you?

13:18:22 7 A. No, I am not.

13:18:24 8 Q. And you have never worked at the Patent Office?

13:18:27 9 A. No, I have not.

13:18:30 10 Q. Have you ever examined a patent to determine
11 whether it was a patentable invention?

13:18:37 12 A. By examined, do you mean in a legal sense?

13:18:40 13 Q. Well, to determine whether a patent should be
14 granted, something that a patent examiner would do?

13:18:47 15 A. No.

13:18:51 16 Q. And you have had a couple of patents issued.
17 Did you do the prosecution work on those yourself?

13:18:56 18 A. No, I did not.

13:18:58 19 Q. Okay. So you had an attorney who was dealing
20 with the Patent Office; correct?

13:19:01 21 A. That is correct.

13:19:05 22 Q. And you are not a registered patent agent?

13:19:06 23 A. No, I am not.

13:19:11 24 Q. You are familiar with the fact that a patent
25 application has an examiner assigned to it to determine

1 whether a patent should issue on the application; correct?

13:19:19 2 A. Yes.

13:19:22 3 Q. And are you familiar with the fact that those
4 examiners are arranged into sections so that they are dealing
5 with a particular type of technology so they become familiar
6 with that type of technology?

13:19:39 7 A. Yes.

13:19:42 8 Q. And -- well, in prosecuting your patents, do
9 you recall whether you got office actions?

13:19:47 10 A. Yes.

13:19:51 11 Q. Do you understand those to be common in
12 prosecuting patent applications?

13:19:54 13 A. Yes, I do.

13:19:57 14 Q. Can you tell us just briefly what an office
15 action is, to your understanding?

13:20:03 16 A. That is where the patent examiner sends a
17 response to your application and is issuing the objections
18 and/or rejections of the claims that you are making and the
19 reasons why.

13:20:20 20 Q. Okay. So he or she has initially rejected or
21 refused issuance of a patent, and then you have a chance to
22 make changes or arguments; correct?

13:20:32 23 A. That's correct. I'm sorry, I need to
24 interrupt. I have been involved in one situation where I was
25 interacting with the patent examiner. That's in reference to

1 an answer I gave you previously.

13:20:44 2 Q. Okay. Was that in reference to one of your
3 applications?

13:20:45 4 A. Yes.

13:20:53 5 Q. And did you find the examiner to be thorough?

13:20:55 6 A. Yes.

13:21:00 7 Q. Now, in this case, we've talked -- well, we
8 talked a fair amount about the Slayden patent, and I'm sure
9 you will talk some more about it. Did you happen to notice
10 who the examiner was on this Slayden patent?

13:21:14 11 A. I don't recall. I didn't notice.

13:21:23 12 Q. Okay. Could you bring up Exhibit 77, please.
13 And in the column on the left, just down at the bottom of the
14 writing, can you expand that, please.

13:21:50 15 Okay. This one has a primary examiner who is Thomas
16 Sember. Do you see that?

13:21:57 17 A. Yes, I do.

13:22:01 18 Q. Do you happen to know who the examiner was on
19 the iLight patents?

13:22:03 20 A. No, I do not.

13:22:06 21 Q. Okay. Could you bring up Exhibit 1, please.
22 All right. Let's go to the next page. There, that's the one.
23 And could you blow up that same part, please. I'm sorry.
24 Actually, I think it's in a different spot here. Okay. The
25 page before. And it's in about the center of the right-hand

1 column. All right.

13:22:37 2 And once again, primary examiner, the same fellow,
3 isn't it?

13:22:47 4 A. I see that.

13:22:52 5 Q. So it's fair to say the examiner examining the
6 iLight patent application was aware of the Slayden patent;
7 correct?

13:22:58 8 A. That seems correct.

13:23:02 9 Q. It seems likely that he was very well aware of
10 the Slayden patent and knew how it worked, wouldn't you agree?

13:23:08 11 A. That seems reasonable.

13:23:13 12 Q. So insofar as you have suggested that iLight
13 had gotten an application that was obvious because -- obvious
14 of over Slayden because both inventions have a rod, both have
15 a housing, both have an LED. Those are all things that Mr.
16 Sember would have been well aware of, wouldn't you agree?

13:23:36 17 A. That seems reasonable, yes.

13:23:41 18 Q. Are you familiar with the presumption of
19 validity of an issued patent?

13:23:50 20 THE COURT: That's a legal term of art, isn't it,
21 counsel?

13:23:52 22 MR. PRICE: Well, it goes to the burden of proof of
23 somebody --

13:23:57 24 THE COURT: I know that, but do you want to rephrase
25 your question?

13:24:01 1 MR. SCRUTON: Okay.

13:24:01 2 BY MR. SCRUTON:

13:24:06 3 Q. Well, in coming to your opinion that the iLight
4 patents are invalid, did you account in any way for the
5 presumption of validity?

13:24:18 6 A. Is that a legal question?

13:24:21 7 Q. Well, it's a question for -- you did the
8 analysis, you concluded --

13:24:25 9 THE COURT: What, if any, effect -- what, if any,
10 consideration did you give to the fact that the Patent Office
11 patented it?

13:24:34 12 THE WITNESS: I considered that to be an important
13 aspect of the -- of why the patent was issued.

13:24:42 14 THE COURT: Does that answer your question?

13:24:43 15 BY MR. SCRUTON:

13:24:46 16 Q. And what weight, if any, did you give that in
17 your determination that you thought these patents were
18 invalid?

13:25:00 19 A. I guess that started as my starting point.

13:25:07 20 Q. Are you familiar with the reexamination process
21 in patents?

13:25:12 22 A. The legal part of the process? No.

13:25:15 23 Q. Are you familiar with the existence and the
24 general nature of the process?

13:25:20 25 A. I know it exists. I've never been involved in

1 it directly.

13:25:23 2 Q. Are you familiar with the fact that anybody who
3 believes a patent has been wrongly issued can ask the Patent
4 Office to have a second look at it?

13:25:33 5 MR. SAWYER: Your Honor, could we approach?

13:25:37 6 THE COURT: Yes.

13:25:41 7 (Whereupon, a bench conference was held, out of the
8 hearing of the jury, to wit:)

13:25:46 9 MR. SAWYER: He's going to try and make an argument to
10 the jury here that Fallon could have gone to the Patent Office
11 to try and get this patent reexamined. They brought the
12 litigation. This is a patent infringement case. There has
13 been no discussion by Mr. Hathaway about reexamination and
14 some other legal process that the parties could have chosen
15 but didn't. This seems well outside the scope of an expert
16 and certainly is not relevant and very prejudicial because the
17 jury doesn't understand what exactly that means. Whether we
18 have an obligation to do it, whether we choose to do it, what
19 the burdens are. It's a totally different legal process.

13:26:35 20 MR. SCRUTON: I'm willing to withdraw the question,
21 Your Honor.

13:26:36 22 (End of bench conference.)

13:26:37 23 THE COURT: Ladies and gentlemen of the jury,
24 disregard the last question.

13:26:40 25 BY MR. SCRUTON:

13:26:44 1 Q. Now, are you familiar with what we call the
2 preferred embodiment in patents?

13:26:48 3 A. Yes.

13:26:52 4 Q. And can you explain generally what that is?

13:26:56 5 A. That is the version of the invention that the
6 inventor or inventors consider to be the most important of the
7 various -- of the variations that would be possible on their
8 idea.

13:27:11 9 Q. And is that typically something that they
10 disclose in the patents?

13:27:18 11 A. I believe so.

13:27:29 12 Q. Do the drawings typically go to the preferred
13 embodiment in your experience?

13:27:30 14 A. In my experience, yes.

13:27:34 15 Q. But the scope of the patent is determined by
16 the claims, wouldn't you agree?

13:27:39 17 A. It's my understanding that the scope of the
18 patents is the claims as well as the entire patent is. So all
19 of the patent has to be taken into account. But the claims
20 are by far the most important single aspect.

13:27:55 21 Q. Would you agree that the fact that an invention
22 incorporates a number of previously known elements does not
23 prevent it from being patentable?

13:28:04 24 A. I agree with that.

13:28:09 25 Q. So the fact that simulated neon lighting was

1 not invented by iLight doesn't prevent iLight from obtaining a
2 patent on a particular type of simulated neon lighting?

13:28:18 3 A. That's correct.

13:28:20 4 Q. And the same with the use of LEDs. The fact
5 that they were previously known doesn't mean that all uses are
6 obvious?

13:28:31 7 A. That's correct.

13:28:42 8 Q. Now, could you bring up Exhibit 77 again. And
9 let's see. I don't have a page cite for you, but I think it's
10 about the third page in. I would like to get to the figures.
11 Okay. That's good. Well, let's be on to the next one, next
12 page.

13:29:00 13 You see Figure 4 there. And we've seen that figure a
14 number of times. Now, Mr. Slayden in his patent talks about
15 his diffuser having a circular cross section. Are you
16 familiar with that?

13:29:17 17 A. Yes.

13:29:21 18 Q. In fact, a circular cross section is in the
19 claims; correct?

13:29:22 20 A. Yes.

13:29:25 21 Q. And would you consider Figure 4 to have a
22 circular cross section?

13:29:29 23 A. In a general sense, yes.

13:29:39 24 Q. Okay. Now, let's back up to the previous page.
25 Okay. And would you agree that this has a circular cross

1 section?

13:29:48 2 A. Yes.

13:29:58 3 Q. Would you bring up Exhibit 29 TT, please. Do
4 you recognize this?

13:30:00 5 A. Yes, I do.

13:30:01 6 Q. And what is that?

13:30:05 7 A. That is an end-on view of the -- I believe it's
8 the Opti-Neon sign that's a diffuser from the Fallon Opti-Neon
9 signs.

13:30:17 10 Q. So that would be one of the Budweiser Bowtie
11 signs that we have seen; correct?

13:30:19 12 A. Oh, actually, you are right. It says
13 Opti-Neon, but I do recall from the report that it was the
14 Budweiser Bowtie sign.

13:30:30 15 Q. Now, would you consider that to have a circular
16 cross section?

13:30:48 17 A. In a strict sense, no.

13:31:00 18 Q. Thank you. Do you consider what you've called
19 the diffuser in the Fallon devices to be the same as the
20 diffuser in the Slayden device?

13:31:12 21 A. I'm sorry, do you mean the -- do they look the
22 same? Do they operate the same? How do you mean that?

13:31:19 23 Q. Well, do they operate the same?

13:31:22 24 A. They have similarities, yeah, but they don't
25 operate identical, no.

13:31:27 1 Q. Mr. Slayden, in his patent, indicates that the
2 tubular cross section or the circular cross section was an
3 important part of his invention, didn't he?

13:31:38 4 A. Yes.

13:31:43 5 Q. And -- all right. Let's go back to Exhibit 77.
6 And I would like to go to Column 4, which is several pages in.
7 I would say it's about Page 7. All right. Now, on the -- on
8 Column 4, can you highlight on, let's say, beginning with --
9 or can you expand, please, beginning with Line 40 down to the
10 end. That's good. Okay. And then I will ask you to
11 highlight beginning at Line 45 and to about Line 58. Okay.

13:32:40 12 Here Mr. Slayden is talking about some of the benefits
13 of his design. And first he says: Since the diodes, 53 and
14 55 -- and those are the LEDs; correct?

13:32:53 15 A. That's correct.

13:32:56 16 Q. Since they are external to the outer diameter
17 of the diffuser -- and the diffuser is the tube; correct?

13:33:06 18 A. Yes. The one at the top; right.

13:33:10 19 Q. Correct. That retracted light could be emitted
20 from the fixture only after being twice refracted by the
21 diffuser. Now, do you understand that to mean that the light
22 comes in to the tube and then it's refracted, goes through the
23 inside, and then it's refracted again?

13:33:32 24 A. Yes.

13:33:40 25 Q. And then Mr. Slayden then, as we proceed, he

1 says: In addition, the inner and outer walls of the diffuser
2 -- again, that's the walls of the tube -- provide reflective
3 light throughout the cross section of the tube 11.

13:33:59 4 So you understand him to say there that the light, in
5 addition to being refracted when it passes through the walls
6 of the diffuser, then it's reflected inside the diffuser?

13:34:10 7 A. No.

13:34:14 8 Q. No. What do you understand that to be?

13:34:16 9 A. I understand that to be somewhat broader of a
10 term than how you are using it. I understand that to
11 mean that it is reflecting light into the air inside the
12 diffuser as well as into the diffuser.

13:34:28 13 Q. Right. Okay. You probably said it better than
14 I did, but that was what I was trying to get at. So it's
15 reflected inside. And it bounces all around in there, doesn't
16 it?

13:34:40 17 A. Yes.

13:34:44 18 Q. Okay. Then Mr. Slayden goes on to say: It is
19 believed that this combination of reflected and refracted
20 light in the translucent tube is what affords the neon-like
21 glow of the fixture. Do you see that?

13:34:55 22 A. Yes.

13:34:58 23 Q. And so he's attributing importance to this
24 tubular design, isn't he?

13:35:02 25 A. Yes.

13:35:18 1 Q. Now, let's go back to 29 TT, please. Okay.
2 Now, In this design -- this is, again, the Opti-Neon sign --
3 and so this is the light emitting surface here, right? Up at
4 the top.

13:35:25 5 A. Right.

13:35:29 6 Q. That is, when we look at the sign, we look from
7 out here, and we look at the illuminated surface there. Would
8 you agree?

13:35:34 9 A. Yes, I would agree.

13:35:38 10 Q. Okay. And so if we were to draw out where the
11 device comes -- there are sidewalls down here, and then the
12 LED would be somewhere down in this general area; correct?

13:35:49 13 A. Yes, probably further than your light; but yes.

13:35:51 14 Q. Perhaps further down, perhaps closer in.

13:35:51 15 A. Right.

13:35:55 16 Q. And so the light from the LED is going to come
17 up, and it's going to hit directly that lower surface;
18 correct? Or at least some of it?

13:36:03 19 A. Yes.

13:36:06 20 Q. Okay. But you are not going to get that effect
21 that Mr. Slayden talks about where the light first passes
22 through when it's refracted twice; correct? Because you don't
23 have this under surface there?

13:36:23 24 A. Well, you will get that, too, in a more limited
25 degree off of the sidewalls. Because the light will also

1 enter the bottom of the sidewalls and accomplish the same sort
2 of thing.

13:36:36 3 Q. To the degree that those sidewalls are exposed?

13:36:38 4 A. Yes, that's exactly right.

13:36:44 5 Q. But then you're not -- well, see, I believe
6 that the surface of the sign is about here, isn't it? About
7 where I'm indicating?

13:36:50 8 A. That's correct.

13:36:53 9 Q. Okay. So you're not going to get all of this
10 reflection -- like, for example, if a beam of light comes up,
11 first it's not going to be refracted in here because there's
12 nothing to refract it as it would be in the Slayden device.
13 would you agree?

13:37:10 14 A. Let me make sure I'm clear. You are only
15 referring to the preferred embodiment?

13:37:15 16 Q. Right. The full circle device.

13:37:16 17 A. Yes, okay.

13:37:19 18 Q. But even if we talk about the alternative
19 embodiment where it's got the slot, it's a relatively narrow
20 slot; correct? I mean -- well, who knows what's relevant in
21 there.

13:37:33 22 A. Right. It's a slot.

13:37:36 23 Q. At least some of that light coming up is going
24 to hit the bottom part of that -- of the tube, some of it
25 would proceed through -- through the slot and not be refracted

1 that first time?

13:37:46 2 A. That's correct.

13:37:49 3 Q. But some of it is going to get doubly
4 refracted, would you agree?

13:37:54 5 A. Yes.

13:37:58 6 Q. Then some of it -- well, we'll move on to that
7 other -- to the Figure 4. But in this case, for example, a
8 beam that comes up and hits here, to the extent it's
9 reflected, it's going to be reflected more or less back down;
10 correct?

13:38:11 11 A. (Respite.)

13:38:15 12 Q. Some of it may be reflected this way, some of
13 it may be reflected in another direction?

13:38:24 14 A. That's a diffuser, so it will be going in all
15 directions. So some of it will be down, and some of it will
16 be up and through.

13:38:32 17 Q. But very little of it is going to bounce around
18 on the inside and then bounce back out through the light
19 emitting surface? Because there's nothing down here for it to
20 bounce out of, would you agree?

13:38:39 21 A. Yeah, I would agree with that.

13:38:41 22 Q. And that, as I interpret it, that's one of the
23 big advantages of Slayden's device. Would you agree with
24 that? At least as Slayden explains it, he says it's the
25 refraction and reflection, correct, that gives the neon glow?

13:39:02 1 A. That's right.

13:39:19 2 Q. Let's go back to 77 and to the fourth page of
3 Exhibit 77. Okay. Here's what we've been calling the slotted
4 embodiment. I believe Mr. Slayden calls that a slotted tube.
5 And we've called that the alternative embodiment. Here you
6 have the LEDs down in this area, and the light from them would
7 come up -- some of it would hit the bottom of the tube, some
8 of it would come up into the slot. And then once it comes
9 through the slot, some of it will be refracted through and
10 emitted; correct?

13:39:59 11 A. Yes.

13:40:03 12 Q. And some of it will be reflected off the
13 surface onto other interior surfaces of that slotted tube.
14 would you agree?

13:40:08 15 A. Yes.

13:40:13 16 Q. So that's -- that will have at least some of
17 the benefits that Mr. Slayden attributes to the tubular form,
18 although perhaps not as much as the full tube; correct?

13:40:37 19 A. I would agree with that.

13:40:40 20 Q. All right. Can we go to Column 3. That will
21 be three or four pages from -- okay. And now, if you can
22 expand the bottom two paragraphs of Column 3, please. All
23 right. Now looking at Figure 4, and that was the figure with
24 the slotted embodiment, he says that it's in all respects the
25 same as the diffuser except that it has a lengthwise slot

1 through the tube. So he seems to be attributing -- he thinks
2 it's going to function in most respects the same. Okay.
3 Let's go -- I'm sorry, let's go to Column 4. And if we can
4 expand, oh, from Line 50 to the bottom of that column, please.
5 Okay.

13:42:06 6 And here again, he's talking about the slotted
7 embodiment of the diffuser. And he says that that reduces the
8 quality of neon simulation, doesn't he?

13:42:25 9 A. Yes, he does.

13:42:28 10 Q. Wouldn't you agree with that, that that would
11 be the likely result of the slotted embodiment?

13:42:36 12 A. In comparison with the other one, yes, I would
13 agree.

13:42:39 14 Q. He does attribute a benefit to the slotted
15 embodiment, which is that it's easier to click into the
16 housing; correct?

13:42:50 17 A. That's correct.

13:42:53 18 Q. Have you ever seen a working version of the
19 slotted embodiment of the Slayden device?

13:42:59 20 A. No, I have not.

13:43:05 21 Q. And you did some computer modeling of the
22 Slayden patent for your report, although we didn't talk about
23 that here. Do you recall that?

13:43:11 24 A. Yes, I do.

13:43:16 25 Q. But you did not model the slotted embodiment?

13:43:22 1 A. No, I did not.

13:43:27 2 Q. I believe your analysis, your computer
3 modeling, was essentially it pretty much agreed with what Mr.
4 Slayden was saying about the benefits of the multiple
5 infraction and reflection?

13:43:43 6 A. Light shows that all sidewalls channel light,
7 is what it really showed. Which I agree with what you're
8 saying, but what it shows was a little broader than that. But
9 all of the sidewalls of any diffuser like that would channel
10 light into the plastic to some degree.

13:44:03 11 Q. Okay. So that when the light hits the wall of
12 the tube, then it's going to -- when you say channeled, is
13 that the same as waveguide, and it's going to travel inside
14 the tube?

13:44:19 15 A. Yes. To some degree it's going to travel
16 inside the plastic.

13:44:22 17 Q. And that will be -- it will travel -- if the
18 light is down below, then it's largely going to be traveling
19 up the tube; correct?

13:44:31 20 A. Well, it would travel in all directions, but
21 including inside the tube.

13:44:37 22 Q. So it will be spread?

13:44:39 23 A. Yes.

13:44:42 24 Q. And that will be spread -- assuming it's a
25 diffuser as you described, it's going to be spread evenly, not

1 preferring any direction over another?

13:44:52 2 A. That's correct.

13:45:09 3 Q. Okay. In your testimony, of course, I have the
4 benefit of being able to read your testimony, so I can cite
5 you to what you said. You said the Fallon signs use a thin
6 walled diffuser, and there is no rational scientific
7 difference between it and the diffuser disclosed by Slayden's
8 simulated neon light patent. Do you recall that?

13:45:29 9 A. Yes.

13:45:34 10 Q. But the Fallon diffuser, or rod, or whatever we
11 want to call it, it's not going to have that effect of
12 reflecting back up into the sign? It's certainly not going to
13 have all the interior reflections that you get with the full
14 tube shown in Slayden; correct?

13:45:53 15 A. It won't have the entire same complement. It
16 will have all of the same physics will be going on the same
17 way, it's just that the bottom half won't be there.

13:46:01 18 Q. Right. So the physics of where the light
19 bounces off the bottom and bounces back up to the top, that's
20 not going to happen?

13:46:07 21 A. That's right.

13:46:11 22 Q. And furthermore, Mr. Slayden seems to think
23 that the twice refracted is important. So it goes -- the
24 light comes up, it hits the bottom of the tube, and then it
25 goes to the inside, and then it hits the top of the tube, and

1 it's refracted each time it goes through the tube. We're not
2 going to have that, certainly not to the degree that we had it
3 in Slayden, in the Fallon device, are we?

13:46:41 4 A. That's correct.

13:46:45 5 Q. Do you agree with Mr. Slayden that the internal
6 reflections are important to his device?

13:46:53 7 A. Yes.

13:46:58 8 Q. All right. Now, the next exhibit I would like
9 to show is Defendant's Exhibit 627. I would like to go to
10 Page 13, please. Now, this you may recall, or you may
11 recognize this, the response to the office action, where --
12 just to put us back in perspective, Mr. Sember, the examiner
13 who had examined the Slayden patent is now examining the
14 iLight patent, and he brings up Slayden. And iLight responds.

15 And let's see. Can you -- there are a couple of parts
16 I would like to highlight. Let's see. One, two, three, up in
17 that area. Can you follow? Okay. That's good. So iLight
18 here says that the 168 patent describes the use of a hollow
19 thin walled translucent diffuser.

13:48:20 20 Now, several times in your testimony you talked about
21 how iLight distinguished Slayden on the grounds that it was a
22 thin walled diffuser. Do you recall that?

13:48:30 23 A. Yes.

13:48:33 24 Q. But I was watching you, and several times you
25 left out the word hollow, which is right there. And it's

1 there; right?

13:48:43 2 A. It's there. I didn't intentionally leave it
3 out.

13:48:47 4 Q. Okay. And at least according to Mr. Slayden,
5 hollow is important, isn't it? Because that's what gives us
6 all those reflections, those internal reflections?

13:49:01 7 A. Right.

13:49:07 8 Q. Okay. And now, once again, I'm sorry if this
9 is hard for you to see. I would like to highlight those two
10 lines there. Great. Thank you.

13:49:20 11 So here iLight is distinguishing its invention. And
12 it says that its invention requires an essentially solid rod
13 with waveguide and light scattering characteristics. Now,
14 since the Slayden device is characterized as hollow, then I
15 think Mr. Sember understood -- well, strike that. Don't you
16 think the examiner would understand that they were
17 distinguishing a hollow device from a nonhollow device?

13:49:54 18 A. Yes.

13:49:58 19 Q. Yes. So they are saying that there are
20 different qualities to this solid device and hollow device.
21 And the hollow device may be good, but ours is different?

13:50:12 22 A. Yes.

13:50:32 23 Q. And let's see if I can find this part.
24 Somewhere in here he's saying that Slayden does not teach an
25 essentially solid rod. So -- and that's true, isn't it?

1 Slayden is not teaching a solid rod, he's teaching a hollow
2 tube?

13:51:02 3 A. That's strictly true, yes.

13:51:08 4 Q. Now, let's see. At some point you did -- you
5 showed a picture of the Slayden device illuminated by LEDs.
6 And I wanted to compare that. There was talk about the oval
7 type spreading that the iLight patents talk about, and whether
8 that was present in the Fallon device or was present in the
9 Slayden device.

13:51:48 10 Could you bring up Exhibit 29HHH, please. Okay.

13:51:54 11 It's a little hard to see with the lights on, but do
12 you recognize what we're looking at there?

13:51:57 13 A. Yes.

13:52:00 14 Q. Okay. And do you recognize that as a Budweiser
15 Bowtie sign? I won't hold you to which version.

13:52:12 16 A. Right. I could recognize it as a Bowtie sign.

13:52:16 17 Q. Would you agree that's an oval shape there?

13:52:19 18 A. The shape I'm seeing is oval, yes.

13:52:24 19 Q. And it's clearly elongated; right?

13:52:28 20 A. Yes.

13:52:36 21 Q. Now, in the Slayden patent, -- and you've
22 reviewed the Slayden patent fairly thoroughly, I assume?

13:52:41 23 A. Yes.

13:52:44 24 Q. Do you recall anything in there where he
25 advocates the use of internal reflecting sidewalls in the

1 housing where the LEDs sit?

13:52:57 2 A. No, I don't recall he did that.

13:53:04 3 Q. And you did some experiments with the Lektron
4 device. Did you do anything to determine the actual
5 contribution to the sidewalls in the light emitting portion in
6 the Lektron device?

13:53:32 7 A. No.

13:53:35 8 Q. All right. Now I'd like to shift gears and
9 talk a little bit about diffusers and waveguides. Now,
10 diffusers and waveguides share some elements in common;
11 correct?

13:53:46 12 A. Yes.

13:53:48 13 Q. And I believe I understand your testimony in
14 your report to be to the effect that the difference between
15 the two is largely based on the configuration with respect to
16 the light source and the waveguide or the diffuser. Do you
17 agree with that?

13:54:06 18 A. Yes. And there's a lot of semantics involved
19 in the whole process.

13:54:13 20 Q. Well, but one piece of plastic could function
21 as a waveguide and as a diffuser, depending on where we put
22 the light, wouldn't you agree?

13:54:23 23 A. Yes.

13:54:26 24 Q. And that's something that somebody of ordinary
25 skill in the art would be aware of; agree?

13:54:33 1 A. I would agree.

13:54:36 2 Q. And somebody of ordinary skill in the art, when
3 they are reading the iLight patents, would certainly
4 understand the configuration that has been discussed there
5 where the light, instead of -- well, let me back up. In a
6 conventional waveguide, we do, as you have demonstrated
7 earlier with an acrylic rod, we're going to put the light in
8 one of the ends and expect to it proceed along the length of
9 the waveguide; correct?

13:55:04 10 A. That's correct.

13:55:07 11 Q. And then also, for example, if we -- you had
12 your flat piece of diffusive plastic, little square, and if
13 you were to shine the light into the edge, that would at least
14 to some degree have a waveguiding effect, wouldn't it?

13:55:23 15 A. Yes.

13:55:29 16 Q. And somebody of ordinary skill in the art would
17 understand that when they were reading the iLight patent;
18 correct?

13:55:36 19 A. Presumably.

13:55:39 20 Q. Presumably they would see not only the
21 configuration where the LEDs, instead of being placed at the
22 end of the waveguide, they were placed under the waveguide,
23 and they would presumably understand that that was maybe not
24 the typical way we talk about a waveguide. would you agree
25 with that?

13:56:00 1 A. I'm sorry, do you mean when you talk about a
2 waveguide, you wouldn't -- could you repeat the question.

13:56:06 3 Q. Yes. It probably was a poor question.
4 Normally when someone in the scale of the art thinks of a
5 waveguide, they think of it where we are putting the light
6 into the end; right?

13:56:17 7 A. I would agree with that.

13:56:21 8 Q. And so it's somewhat unconventional to put it
9 in the side as we're seeing in the iLight patents?

13:56:30 10 A. It is less common than on the end. It is
11 common, however.

13:56:33 12 Q. I'm sorry?

13:56:35 13 A. It is less common, but it's simply less common.

13:56:36 14 Q. Okay. But somebody of skill in the art would
15 -- they would understand the common way it's done, they would
16 understand that this is perhaps a less common way; right?

13:56:48 17 A. If you are using the term waveguide, you get
18 less -- it would be less common to use that term when you are
19 illuminating the back.

13:56:59 20 Q. But somebody who is reading the patent, if I am
21 an optical engineer or something, I'm reading this patent,
22 that would be instantly obvious to me; right?

13:57:09 23 A. I would presume so.

13:57:10 24 Q. So I wouldn't see the term waveguide and be
25 confused because it wasn't coming in the side, I could just

1 see, they are using this in a slightly different way than what
2 I'm used to. Would you agree with that?

13:57:24 3 A. That's possible.

13:57:28 4 Q. Certainly they would know that it was side lit
5 instead of end lit?

13:57:34 6 A. That's correct.

13:57:37 7 Q. Now, in order to have a waveguide effect, you
8 need to have reflections off surfaces of the waveguide;
9 correct?

13:57:48 10 A. That is typical, yes.

13:57:53 11 Q. Well, you've said in your report, quote, in
12 general, without the surface reflection, there is no continuum
13 of the light and there is no waveguide effect. Do you recall
14 that?

13:58:04 15 A. Yes.

13:58:06 16 Q. So I may have asked you in a way that allows
17 that there are a few atypical examples, but that's usually the
18 way a waveguide works; right?

13:58:16 19 A. Yes.

13:58:20 20 Q. So we put the light in the edge, or we put the
21 light in the end, and the light, as long as it's at the proper
22 angle, it's going to bounce off the inside surfaces, and it's
23 going to just travel down that waveguide unless it leaks out
24 or it's absorbed. Is that basically correct?

13:58:42 25 A. Let me make sure I've got you right. You are

1 saying that you are dealing with a waveguide, and you
2 illuminate the back, that you are expecting that it's going to
3 be bouncing off -- the light is going to be bouncing off the
4 walls of the waveguide?

13:58:53 5 Q. Yes.

13:58:55 6 A. I would agree with that, yes.

13:58:57 7 Q. Yes. And that's what causes it to be a
8 waveguide; right?

13:59:00 9 A. In general.

13:59:03 10 Q. Right. And Dr. Roberts went through total
11 internal reflection and everything. And I think you mentioned
12 that. And that's the phenomenon that happens there.

13:59:15 13 A. That's not the only way to accomplish that, but
14 that is the most common way, yes.

13:59:21 15 Q. Now, you showed us the little piece of
16 diffusive plastic.

13:59:23 17 A. Yes.

13:59:27 18 Q. And you showed us the photo where you had shone
19 a laser into the sheet of plastic and it provided a circular
20 diffusion pattern. Do you recall that?

13:59:43 21 A. Yes.

13:59:46 22 Q. In that experiment, you are not providing any
23 surfaces that can waveguide, are you? Wasn't it perfectly
24 predictable that that was going to give us a circle?

14:00:06 25 A. That's a question of whether asymmetry is

1 coming from the material itself or whether it's coming from
2 the walls.

14:00:09 3 Q. But, well, for example, let's talk about the
4 rod. You showed a rod, and that made a pretty nice waveguide,
5 where you have shone a light into the end, and it was very
6 bright on the opposite end?

14:00:18 7 A. Right.

14:00:21 8 Q. And I think you said that was made of acrylic?

14:00:21 9 A. That's correct.

14:00:25 10 Q. And there is nothing about acrylic per se that
11 preferentially scatters light in a directional way, is there?

14:00:33 12 A. Not that I'm aware of.

14:00:38 13 Q. So if we were to take a sheet of acrylic like
14 your sheet of diffusive plastic, boom, it's going to go right
15 through it, and it's not going to waveguide to any significant
16 degree, either, is it? That is if we shone it through the
17 flat sign?

14:00:55 18 A. I'm sorry, you say to a significant degree. Do
19 you mean if you were to do a power analysis of where all the
20 energy is going?

14:01:04 21 Q. Let me change the question, then. If you were
22 to flatten that piece of acrylic out, that rod, or take the
23 same type of acrylic and make a flat pane, just like you were
24 showing with the diffusive plastic, and you've shone a laser
25 through it and you took a picture of it, that's going to

1 provide a circular pattern, too, isn't it?

14:01:28 2 A. Yes.

14:01:34 3 Q. Probably not much diffusion. It's probably
4 mostly just going to be the laser going straight through;
5 right?

14:01:40 6 A. Should be.

14:01:43 7 Q. And yet that same material, when formed into a
8 rod, makes a very nice waveguide, doesn't it?

14:01:48 9 A. Right.

14:01:50 10 Q. And wouldn't somebody -- well, the iLight
11 patents specifically talk about acrylic, don't they? Making
12 their rod out of acrylic?

14:01:58 13 A. That's correct.

14:02:03 14 Q. So wouldn't somebody of ordinary skill in the
15 art be well aware that you could take acrylic, and if you
16 configure it in a certain way such as a flat pane, and you
17 shine it in the flat side, it's not going to be much of a
18 waveguide?

14:02:16 19 A. That's correct.

14:02:19 20 Q. And yet if you form it into a rod, then it
21 could be a waveguide?

14:02:22 22 A. That's correct.

14:02:25 23 Q. Somebody would understand that, too; right? If
24 they were of ordinary skill in the art?

14:02:29 25 A. So let me understand, because you are using two

1 terms. You are using scattering and waveguide. You are only
2 referring to a waveguide aspect of it?

14:02:37 3 Q. That's what I've been talking about
4 principally, yes.

14:02:39 5 A. Okay, yes.

14:02:42 6 Q. And I feel we're -- well, if there were
7 scattering -- for example, if we used a diffusive form of
8 acrylic, if it had some sort of scattering defects in it, then
9 we would expect that if it's in a rod and we shine it in the
10 rod, at the end of the rod, that's going to have a waveguiding
11 effect, and it's also going to scatter light; correct?

14:03:09 12 A. Right. It's the question of preferential
13 scattering, is the question that we were trying to get to.

14:03:15 14 Q. But if you shine it in the end, it's going to
15 preferentially send the light down the length of the tube,
16 isn't it? Or I'm sorry, the length of the rod?

14:03:25 17 A. This is a rod with definitely no scattering
18 material in it?

14:03:30 19 Q. Regardless. If it has some amount of
20 scattering material, it's still going to have some waveguiding
21 effect, depending on how much scattering material it has?

14:03:45 22 A. That's right.

14:03:54 23 Q. But in any event, your experiment was designed
24 in a way that it was perfectly predictable that we were going
25 to get a circular pattern, because we really knew going in

1 that there is nothing about that plastic that's going to
2 preferentially direct the light in one way or another if it's
3 formed into a sheet, as what you saw?

14:04:21 4 A. Right. The issue of preferentially scattering.
5 That's what that was trying to show. No preferentially
6 scattering.

14:04:31 7 Q. Right. But the iLight patent doesn't talk
8 about using a sheet of plastic, does it?

14:04:35 9 A. No, it doesn't.

14:04:38 10 Q. No. And Fallon's device doesn't use a sheet of
11 plastic, either?

14:04:44 12 A. No.

14:05:08 13 Q. Now, how did you happen to choose to use a
14 laser for that experiment?

14:05:12 15 A. I had one readily available.

14:05:15 16 Q. Did you have any LEDs readily available?

14:05:18 17 A. I had some, but the test was much faster and
18 easier to set up with the laser, and much less confusing in
19 terms of interpreting the result.

14:05:29 20 Q. Well, but the patents, the iLight patents,
21 don't talk about using a laser as a light source, do they?

14:05:35 22 A. No.

14:05:41 23 Q. And the Fallon devices don't use a laser for a
24 light source?

14:05:43 25 A. No.

14:05:47 1 Q. Is there a difference between the light that
2 comes out of a laser and a light coming out of an LED in terms
3 of its orientation?

14:05:55 4 A. Yes.

14:05:59 5 Q. Light coming out of a laser is parallel beams
6 of light; right?

14:06:02 7 A. That's correct.

14:06:05 8 Q. Very little dispersion. That's why it's so
9 useful for pointing out and such?

14:06:10 10 A. That's exactly correct.

14:06:11 11 Q. And an LED, on the other hand, different ones
12 are going to disperse differently, but they typically have a
13 range of dispersion at a much broader angle than a laser;
14 would you agree?

14:06:20 15 A. Yes.

14:06:23 16 Q. They are not -- I believe the word is
17 columnated?

14:06:27 18 A. Columnated.

14:06:29 19 Q. Columnated. And that refers to the very
20 parallel beams of light?

14:06:31 21 A. That's correct.

14:06:38 22 Q. And an LED sends light out in a noncolumnated
23 way, it's disbursed?

14:06:42 24 A. That's right.

14:06:49 25 Q. So a laser shining into the flat side of a pane

1 of acrylic or plastic, diffusive or not, is really not very
2 representative of these devices as they are in real life, is
3 it?

14:07:03 4 A. That wasn't the intention of the experiment.
5 But I would agree with what you said, yes.

14:07:15 6 Q. Because light from an LED comes out at an
7 angle, would you agree that some of that, if it hit -- even if
8 it hit the pane on the flat side, if it's a diffusive pane, do
9 you believe that that would create at least some waveguiding?
10 where the light rays from the LED are hitting at an angle?

14:07:46 11 A. This is on a diffuser or on a -- what kind of
12 material?

14:07:55 13 Q. Either way. Diffuser, painted glass?

14:07:57 14 A. So the -- could you ask the question again?

14:07:59 15 Q. Okay. The question is -- I will see if I can
16 demonstrate it here. If we've got a sheet up here, we've got
17 an LED down here, and you're going to have rays coming up at
18 an angle sort of like this?

14:08:13 19 A. Right.

14:08:16 20 Q. Some are going to go straight up, some are
21 going to come out at an angle, and, depending on the LED, that
22 may be a broader angle or narrower, but when these ones coming
23 out at an angle hit the sheet of glass, is there likely to be
24 some waveguiding effect? It's going to be refracted; right?

14:08:42 25 A. It's going to be refracted, and it's going to

1 be refracted more strongly, as the angle --

14:08:49 2 Q. Right. So depending on the angle, it may be
3 refracted such that we've got at least a little bit of
4 internal reflection so it will spread the light around?

14:08:58 5 A. You will get internal reflection with the laser
6 as well. All of those will give you internal reflection.

14:09:03 7 Q. But with the laser do you think it's going to
8 be equivalent? Aren't you going to get a lot more internal
9 reflection when the beams are hitting at an angle other than
10 90 degrees?

14:09:18 11 A. Well, you will get a different amount of
12 bending in the material. It's a lens effect. So as the angle
13 is increased, the amount of bending of the light inside the
14 material will increase. I will agree with that. But it won't
15 trap.

14:09:38 16 Q. Right. It's probably --

14:09:41 17 A. It won't waveguide, in the sense that
18 waveguiding -- I mean, if waveguiding refers to a trapping of
19 the light in the material, it will not trap.

14:09:51 20 Q. Okay. Well, won't that depend on the angle?

14:09:51 21 A. No.

14:09:53 22 Q. No. So if it comes in --

14:09:57 23 A. It will come out. If it comes in the back, it
24 will come out the front.

14:10:07 25 Q. Okay. Is that true with a diffusive sheet

1 also?

14:10:07 2 A. No.

14:10:12 3 Q. So some of that will waveguide?

14:10:14 4 A. Yes.

14:10:19 5 Q. Did you try your laser tests with a narrow
6 strip of material?

14:10:31 7 A. You mean a narrow strip of any material?

14:10:36 8 Q. Well, you did your laser test with what I'm
9 calling a pane, I think it was about a 4" by 4" square of
10 plastic.

14:10:47 11 A. That's right.

14:10:50 12 Q. Did you try it with a strip of that material,
13 maybe three quarters of an inch by 4"?

14:10:56 14 A. Yes.

14:10:59 15 Q. But you didn't show us that test?

14:10:59 16 A. No.

14:11:04 17 Q. And did you try it with a curved surface?

14:11:04 18 A. Yes.

14:11:13 19 Q. And you didn't show us that test, either?

14:11:15 20 A. No.

14:11:24 21 Q. And the patent -- the iLight patents and the
22 specification, which I think as you've pointed out, the
23 specification is the same or nearly the same in all three of
24 these patents -- they talk about how, when the acrylic
25 material is formed into a rod, it takes on a waveguide

1 characteristics. Do you recall that?

14:11:48 2 A. I believe so.

14:11:50 3 Q. well, let's --

14:11:52 4 A. Could you point out that?

14:12:00 5 Q. Absolutely. let's bring out Exhibit 1, please.

6 okay. And if you can go to Column 5, which is going to be

7 several pages in, probably about -- oh, I'm guessing 12 pages.

14:12:24 8 Keep going. Okay. There is four. Next page. All

9 right. Now, Column 5 is the left-hand column. And if we can

10 expand up at the top here, about the top ten or twelve lines.

11 Yeah, that's fine. Okay. And let's highlight -- actually,

12 here's the good part.

14:12:58 13 So here they talk about acrylic material treated to

14 scatter light and its various benefits. And then, well, can

15 you read this sentence?

14:13:10 16 A. when shaped into the profiled rods, the rods

17 take on the desired leaky waveguide characteristics.

14:13:16 18 Q. Okay. So they are not suggesting, are they,

19 that it's anything inherent in the material that causes the

20 waveguiding effect that they talk about, or preferential

21 scattering. Aren't they saying that when it's shaped into

22 rods, it does it?

14:13:34 23 A. okay.

14:13:40 24 Q. Okay. But your laser test was not a rod?

14:13:45 25 A. No, it was not.

14:14:01 1 Q. Now, is it your understanding that all of the
2 claims that are asserted against the Fallon devices require
3 that the material the rod is made of preferentially scatters
4 light?

14:14:18 5 A. I'm sorry, all of the claims?

14:14:20 6 Q. All of the asserted claims.

14:14:25 7 A. I would have to review all of them to -- it's
8 generally common in there.

14:14:30 9 Q. Let me help you out. Let's go to Exhibit 2,
10 please, Page 15. And now let's go one more page. And
11 another. Okay. Here we go to the claims. Let's expand Claim
12 1, which is -- okay. All right.

14:15:21 13 Now, do you see anything in there that requires that
14 the materials that the rod is made of preferentially scatters
15 light?

14:15:51 16 A. In this case it says preferentially directed.

14:15:54 17 Q. Right, but is that talking about the material
18 there?

14:15:56 19 A. No, talking about the light.

14:15:58 20 Q. Right. It says a housing position externally
21 and adjacent, whereby said housing includes sidewalls having
22 internally reflecting surfaces, serves to collect and direct
23 light.

14:16:19 24 And that's the housing that serves to do that, right?

14:16:19 25 And directs it into such lateral light receiving

1 surface such that the light is preferentially directed along
2 the predetermined length.

14:16:28 3 So it doesn't say anything about the material of the
4 rod doing that, does it?

14:16:31 5 A. Yes, that's correct.

14:16:39 6 Q. Okay. And let's do the same thing with Exhibit
7 3. And what we're looking at here is part of the '262 Patent,
8 the first claim. So if we can go to the '970 Patent, which is
9 Exhibit 3. And let's go to the back of that, where the claims
10 are. I hope they are at the back. Sometimes they have some
11 more drawings. Okay. It's Page 3. There we go. Okay. And
12 can you expand the first claim up here. All right.

14:17:34 13 Do you see anything there that requires that the
14 material the rod is made of, or the rod-like member in this
15 case, that the material preferentially scatter?

14:17:50 16 A. I don't see that term there.

14:17:54 17 Q. I don't either. Okay. Let's move down that
18 page a little bit to -- I think it should be the fifth claim.
19 Yes. All right. Do you see anything there requiring that the
20 material the rod is made of preferentially scatter?

14:18:22 21 A. No, I don't.

14:18:25 22 Q. Okay. And now let's move down to the other
23 independent claim, which I believe is Claim 8. Yes. All
24 right.

14:18:37 25 And the same question there. Do you see anything that

1 requires the material the rod is made of to preferentially
2 scatter?

14:18:58 3 A. No, I didn't.

14:19:03 4 Q. Now, in your testimony you have said that the
5 diffusers on Fallon's signs were not wide enough to determine
6 whether the scattering of the light was preferential. Do you
7 recall that?

14:19:16 8 A. Yes.

14:19:19 9 Q. And that was when you went to this experiment
10 with the sheet?

14:19:22 11 A. Right.

14:19:26 12 Q. So you don't know one way or the other whether
13 those are preferentially scattered, do you?

14:19:35 14 A. Yes, I do.

14:19:38 15 Q. Well, according to your testimony, they weren't
16 wide enough to tell?

14:19:43 17 A. Those weren't wide enough to test. But we
18 since, very recently, have found a way to do that.

14:19:53 19 Q. Okay. Did you use the same sort of set-up that
20 you used in your --

14:19:56 21 A. No.

14:20:01 22 Q. Okay. Not in your laser test?

14:20:03 23 A. No.

14:20:09 24 Q. Do you read some requirement into the patents
25 as to how much waveguiding has to occur? That is, how much

1 degrees of light within the rod, in order for it to be covered
2 by the patent?

14:20:24 3 A. I think that's -- I don't. That's my problem
4 with evaluating some of these things.

14:20:33 5 Q. All right. Now, I'm going to shift gears on
6 you again. I think -- well, you looked at two Bowtie signs.
7 Do you recall that? Budweiser Bowtie?

14:20:45 8 A. Yes.

14:20:49 9 Q. And one of them we generally call the newer
10 Bowtie, and one we call the old Bowtie or sometimes the
11 Opti-Neon?

14:21:01 12 A. I've only looked at the new Bowtie sign. I
13 have seen the report on the old Bowtie sign.

14:21:07 14 Q. Okay. So you understand from the report,
15 though, that the old Bowtie sign does have internal channels
16 around the LEDs, don't you?

14:21:12 17 A. Yes.

14:21:17 18 Q. And did you conclude that the new Bowtie does
19 not have channels around the Bowtie shape?

14:21:29 20 A. My evaluation was that it didn't seem to have
21 what we were calling channels anywhere. But on the outside
22 section, there were walls that were much closer to the
23 diffuser than throughout the scattering area.

14:21:45 24 Q. Right. So in the Bowtie there are what we
25 could call sidewalls at least?

14:21:49 1 A. Yes.

14:21:52 2 Q. On either side of the LED?

14:21:52 3 A. Right.

14:21:56 4 Q. And those do have external sidewalls, while you
5 are contending that a lot of the other signs don't have
6 external sidewalls?

14:22:07 7 A. That's right.

14:22:12 8 Q. Okay. Here's another little snippet from your
9 testimony. You are talking about various of the elements that
10 were put together in the iLight patents. And this is on Page
11 33 of your testimony, if you want to look at it. You say, in
12 fact, all of these elements were well understood and had very
13 predictable uses, and any combination of such elements will
14 produce expected results. Do you recall that?

14:22:38 15 A. Yes.

14:22:41 16 Q. So does that mean that no combination of these
17 elements could be patentable, if they are only producing
18 expected results?

14:22:56 19 A. If it's only producing expected results that
20 would seem to be reasonable.

14:23:00 21 Q. And you are saying that any combination of
22 these elements will produce an expected result. So that would
23 seem to dictate that nothing in the area of art could be
24 patentable. Does that sound right to you?

14:23:17 25 A. I think with regard to the materials and the

1 system that we're talking about right now, I don't think I was
2 trying to make that a general statement to all possible
3 circumstances. But within the confines of a discussion of the
4 elements and materials and the embodiments that we're talking
5 about, that's what my statement was in regard to.

14:23:39 6 Q. All right. Well, are you saying the Slayden
7 patent was invalid for obviousness, because it produces merely
8 an expected result?

14:23:52 9 A. No. It's expected in light of where we were at
10 that time frame, 2001.

14:23:57 11 Q. Well, was Slayden groundbreaking in combining
12 these elements?

14:24:01 13 A. Well, he got a patent.

14:24:04 14 Q. He got a patent. But it wasn't the first one
15 to simulate neon, was it?

14:24:10 16 A. Not to my knowledge.

14:24:14 17 Q. Okay. A little bit later in your testimony you
18 say that Slayden -- and I'll quote here, and this is on Page
19 34 if you want to read along -- it says, Slayden actually
20 teaches a configuration that would behave exactly as described
21 in the patents-in-suit, a diffuser that serves as a combined
22 optical waveguide, again as described in the iLight patents,
23 and as a scatterer.

14:24:40 24 Do you recall that?

14:24:41 25 A. Yes.

14:24:46 1 Q. So are you saying now that the iLight device
2 does act as an optical waveguide?

14:24:50 3 A No, what I'm saying is that that description is
4 exactly fit by the Slayden device. That's what I'm saying.

14:25:00 5 Q. All right. I want to talk about a little bit
6 about the interior light reflective sidewalls. Now, you have
7 concluded that the Fallon devices don't have interior light
8 reflecting sidewalls; correct?

14:25:16 9 A. That's correct.

14:25:20 10 Q. How much light, in your view, do the interior
11 sidewalls have to reflect in order to be reflective under the
12 patents?

14:25:26 13 A. Do you want a number?

14:25:29 14 Q. Well, if you have a number.

14:25:33 15 A. Well, since the Court has defined that as
16 favorably, I believe is the term, favorably sounds to me like
17 it's more than what you would get if you used the blackest
18 possible material that happens to have an index of refraction
19 that's around 1.5, which is what most common materials have.

14:25:57 20 Q. Well, if it has the effect of increasing the
21 light output from the light transmissive member, isn't that
22 favorable?

14:26:04 23 A. It doesn't seem that way to me.

14:26:07 24 Q. So you think that that's either favorable or
25 unfavorable that it increases the light output?

14:26:14 1 A. I think the difference that you accomplish is
2 insignificant and irrelevant and an indication that it's a bad
3 reflector.

14:26:25 4 Q. Now, have you looked at the actual devices and
5 seen whether you can see reflections in the sidewalls of the
6 LEDs?

14:26:31 7 A. Yes.

14:26:37 8 Q. Let's bring up exhibit -- and here I hope I
9 have the right number, I believe it's 588, and I believe 588
10 is several photos. What I'm after is the eighth photo.

14:26:58 11 MR. SCRUTON: Your Honor, may we dim the lights?

14:27:30 12 THE COURT: Yes.

14:27:34 13 MR. SCRUTON: Okay. Well that's probably a different
14 photo. Let's try 29-P. Okay. This one will be fine.

14:27:54 15 BY MR. SCRUTON:

14:27:56 16 Q. Do you understand what we're looking at here?

14:27:58 17 A. Yes.

14:28:04 18 Q. This is the E from the neon open sign with the
19 light transmissive member removed. And here we see a line of
20 LEDs. And here we see a line of reflection of LEDs. And here
21 we see another line of reflections of LEDs. So are you
22 telling us that this is not reflective?

14:28:27 23 A. Yes.

14:28:40 24 Q. Okay. Now, you have indicated in your
25 testimony that the intended use of the sidewalls in the Fallon

1 devices -- and I think we can relight the lights -- is from
2 mounting the circuit boards. Do you recall that?

14:28:55 3 A. Yes.

14:28:59 4 Q. Have you seen inside the Super Bright Open sign
5 that is the newer of the two Open signs?

14:29:05 6 A. Yes.

14:29:09 7 Q. So you are familiar with the fact that the blue
8 accents around the outside do not have sidewalls; correct?

14:29:13 9 A. That's correct.

14:29:15 10 Q. And you are also familiar with the fact that
11 the letters do have sidewalls?

14:29:18 12 A. Right.

14:29:26 13 Q. Now, Fallon was obviously able to make a design
14 holding circuit boards without sidewalls, weren't they?
15 Because they did that with Super Brights.

14:29:42 16 A. That's right.

14:29:44 17 Q. Have you talked to them, whether they did that
18 with the letters of the Super Bright sign?

14:29:51 19 A. No. I'm sorry, do you mean did we discuss in
20 the context of the patent about that?

14:29:55 21 Q. In the context of --

14:29:58 22 A. I mean, I'm not a design consultant.

14:30:00 23 Q. Right. I understand. Anyway, you didn't have
24 occasion to ask them why they didn't do the same thing around
25 the letters that they had done around the Xs?

14:30:09 1

A. No.

14:30:11 2

THE COURT: I think we're at the point of our
afternoon break. Ladies and gentlemen, we're going to take
our afternoon break. It will be about a 15 minute break.
Please Don't discuss the evidence amongst yourselves or with
anyone else until you receive all of the evidence, the
argument of counsel and the charge of the Court. If you all
are more comfortable upstairs, you can go back upstairs.
There's a little bit more room.

14:30:59 10

(Jury out.)

14:31:15 11

THE COURT: Who is the next witness for the defense?

14:31:22 12

MR. KITTREDGE: Mr. Carl Degen.

14:31:26 13

THE COURT: Do you contemplate getting to Slayden
today?

14:31:29 15

MR. KITTREDGE: I hope to get to him this afternoon
also. His is going to be very short.

14:31:36 17

THE COURT: Did you all read the federal circuit case
cited by the Court? Does anybody want to be heard on that?

14:31:43 19

MR. KITTREDGE: I did, Your Honor.

14:31:59 20

THE COURT: You all can have a seat.

14:32:02 21

MR. KITTREDGE: The case with respect to the late
disclosed patent states that that patent could not be used
because the expert witnesses had never had an opportunity, the
parts had already been exchanged, and they didn't have an
opportunity to deal with that patent. That's not the

1 situation we have here. The experts have had full opportunity
2 to deal with all aspects of the Slayden device.

14:32:26 3 The case also, on Page 1375, discusses inventor
4 testimony and mentions of prior art and their testimony and
5 how it is relevant to come in and explain what they did and
6 how they did it, to come up with their patent. That's all we
7 want Mr. Slayden to do. And like I said, it's going to take
8 10 or 15 minutes to do that. And that will be
14:32:44 9 non-conflicting.

14:32:46 10 THE COURT: Yes, sir.

14:32:49 11 MR. VEZEAU: The basic problem -- I think Page 1375 is
12 pretty instructive in that area, Your Honor. The basic
13 problem we have is what this witness did in coming up with
14 this patent is really, in our view, irrelevant to this case
15 because it is his patent per se that was issued, the piece of
16 paper with everything on that piece of paper that is the prior
17 art, not what he might have done before that or prototypes he
18 might have built.

14:33:20 19 All of that is frankly not part of the opinion you
20 have just heard. That really is going down the rod that is a
21 distraction, it's not prior art. And it's in my opinion going
22 to be cumulative. Any relevant testimony, if there is any
23 from this man, would be cumulative to what we just heard. But
24 frankly, there is no relevant testimony, because all he can do
25 is come on and say, I'm Mr. Slayden, here's my patent. well,

1 we don't doubt this is his patent. It's in evidence.

14:33:53 2 So really, he can't contribute much of help in our
3 view to this jury. What he did before to get his patent is
4 frankly irrelevant. It's his patent that they are relying on
5 as prior art.

14:34:06 6 MR. KITTREDGE: The Seventh Circuit discussed exactly
7 issue, and they did say that the patent speaks for itself, and
8 the patent is the key piece of evidence as prior art. But it
9 also acknowledged that the inventor can come in and testify
10 about what he did to come up with the invention. And that
11 that is admissible and relevant evidence.

14:34:20 12 THE COURT: But that's not the focus really of the
13 motion. The motion is, we got this name really on the close
14 of discovery. We didn't have adequate opportunity to conduct
15 discovery from him. The name comes in on, I guess it was the
16 20th or the 30th.

14:34:45 17 But the thing that the Court noted was that, when he
18 was disclosed on the last day of the discovery, his address
19 was listed as unknown. So the signal that sent to me was,
20 even if they knew about him, if you didn't know where the
21 address was, in all likelihood it may have been futile or
22 semi-futile to try and take the deposition.

14:35:15 23 I think we've had expert testimony about the Slayden
24 patent and how it relates to this patent. And in light of the
25 fact that there was this discovery disclosure so late, I'm

1 going to exclude it, but I'm also going to preclude the
2 plaintiffs from saying that the defense promised you this
3 witness and didn't produce it.

14:35:43 4 MR. KITTREDGE: I appreciate that, Your Honor. I
5 would ask one other instruction that I think would help
6 alleviate any prejudice in that regard, and that is if Your
7 Honor would tell the jury --

14:35:53 8 THE COURT: well, I'm going to give them a standing
9 instruction, they don't have to call everybody whose name is
10 mentioned in the lawsuit or may have something to do in the
11 lawsuit. That's a standard instruction.

14:36:03 12 MR. KITTREDGE: But I made a promise to them, and I'm
13 just asking you if you could tell them the Court has
14 determined his testimony would be duplicative, and, therefore,
15 you're not going to hear it. Nothing more than that.

14:36:14 16 THE COURT: well, my thought was, there has been so
17 much water under the bridge since opening statements, I don't
18 know if they recall your promise.

14:36:24 19 MR. KITTREDGE: I think they will because they have
20 been hearing about Slayden all trial long, and that's what I'm
21 concerned about.

14:36:29 22 THE COURT: I'll think about it.

14:36:29 23 MR. KITTREDGE: Thank you.

14:36:29 24 THE COURT: Anything else?

14:36:32 25 MR. PRICE: There are a handful of instructions with

1 respect to Mr. Degen's narrative. We've got three separate
2 ones. We can discuss that now.

14:36:39 3 THE COURT: Mr. who?

14:36:43 4 MR. PRICE: Mr. Degen. He is their damages expert.
5 He will be next.

14:36:50 6 THE COURT: well, where are those objections?

14:37:01 7 MR. PRICE: Your Honor, we basically have three
8 objections. The first one is an additional quotation as to
9 the Goldscheider article that was added to the narrative. And
10 while we have not objected, frankly, to certain other quotes
11 that were added that were not in his report, this one we
12 particularly objected to because it amounts to an improper
13 legal opinion.

14:37:25 14 Basically, the article quotes extensively from an old
15 Sixth Circuit case, and he's using that to suggest that's the
16 applicable law here. Frankly, that's not the case. There is
17 a recent federal circuit case that came out very differently.
18 This would be an improper legal opinion from a damages expert.

14:37:42 19 THE COURT: Yes, ma'am.

14:37:47 20 MS. MCMILLION: Your Honor, we would submit that this
21 is not outside the four corners of his report. This article
22 was attached to his report and is referenced in his report.

23 Plaintiff had their damages expert comment and
24 critique the rule of thumb, and why it is not accepted and why
25 it's not used. And this article merely allows our expert to

1 come in and say why it is accepted, why it is used, and why it
2 was the basis of his reliance in making his opinion.

14:38:10 3 MR. PRICE: Your Honor, I completely agree. And they
4 have cited extensively from this article about the rule of
5 thumb. We have no issue with that.

14:38:18 6 Here, this quote is almost verbatim from a Sixth
7 Circuit case, and they are trying to impose a legal opinion
8 which, frankly, is inaccurate. That is the real problem and
9 the crux here.

14:38:34 10 And I would note, Your Honor, at one point in Mr.
11 Bratic's cross examination he began to make reference to a
12 court case, and Your Honor appropriately cut him off from
13 doing so. They are basically asking to do the same here.

14:38:47 14 THE COURT: well, it's the interpretation of the
15 language of the Court that gives me concern. Let me see his
16 report. I need a little bit more context.

14:39:10 17 MS. MCMILLION: Would Your Honor like the original
18 report or the script?

14:39:30 19 THE COURT: Whatever he's going to testify to that has
20 been looked at. On Page 8, Paragraph 3. These other two
21 documents I can hand back to defense counsel.

14:40:17 22 Page 8, Paragraph 3. well, on Page 8, Line -- and has
23 been accepted by courts in numerous cases, I'm going to strike
24 that. I don't think the witness is competent to testify to
25 that. He can say, as taught in many textbooks.

14:40:39 1 Now, the plaintiff's damages expert made references to
2 Georgia-Pacific.

14:40:42 3 MR. PRICE: Right. And we have no problem with the
4 reference to Georgia-Pacific, Your Honor. Both sides have
5 done it.

14:41:06 6 THE COURT: All right. Well, the third paragraph --
7 well, what is the language in this third --

14:41:14 8 MR. PRICE: What we're objecting to, Your Honor? Is
9 that what you are asking?

14:41:21 10 THE COURT: Yes, calling for analysis of hypothetical
11 negotiation just prior to first infringement.

14:41:25 12 MR. PRICE: I'm looking at Page 8, Paragraph 3, and
13 slot number six that goes with it. It's quoted verbatim in
14 the text in that handout I gave you, Your Honor.

14:41:36 15 THE COURT: That's it. On Page 8, third paragraph, I
16 don't see ordinarily royalty rights. I don't see that.

14:41:41 17 MR. PRICE: The pagination may have changed, Your
18 Honor.

14:41:49 19 Okay, Your Honor. Apparently the pagination changed
20 slightly. It's now Page 7, the line starting at the bottom.
21 My pagination, frankly, is different than what they have now.
22 Is yours the same as his?

14:42:12 23 MR. KITTREDGE: I gave him the pagination of your
24 print-out.

14:42:17 25 THE COURT: We'll adjust as we go along. I'm not

1 amenable to experts electing quotation from cases. So I will
2 sustain the objection to what is now revised Page 7, the
3 bottom paragraph, continuing to the top of Page 8.

14:42:41 4 Now, the next one is on Pages 26 and 27. Are those --

14:42:43 5 MR. PRICE: This is the section dealing with the
6 Lektron product which obviously Your Honor has already dealt
7 with in part. Our particular objections here is we have a
8 damages expert going way beyond the noninfringing alternative.
9 He is blending the Slayden patent.

14:43:03 10 THE COURT: Wait a minute. Let me locate it first. I
11 don't have a Page 26.

14:43:08 12 MR. PRICE: I'm sorry. It is actually quoted verbatim
13 in that text I gave you.

14:43:11 14 THE COURT: I got that part, but where is it in this
15 document?

14:43:15 16 MR. PRICE: I don't know. Their pagination is
17 different than mine.

14:43:17 18 THE COURT: Okay. Well, let me -- if you don't mind,
19 let's see if we can get there. Where is it now?

14:43:23 20 MS. MCMILLION: Page 25.

14:43:29 21 THE COURT: Page 25? Is that where it is, ma'am?

14:43:32 22 MS. MCMILLION: I believe so, Your Honor. Yes. That
23 copy is printed with the plaintiff's objection on it, but this
24 is the script as printed.

14:43:44 25 THE COURT: I don't see the quote, here you can see

1 iLight's Plexineon on Page 25. which is what he's quoting.

14:44:07 2 MR. PRICE: Actually, it looks like it's the bottom of
3 24 on their copy. In short, Your Honor, --

14:44:26 4 THE COURT: well, hold on. where is it? Here you can
5 see language? I don't see that.

14:44:33 6 MR. PRICE: Apparently we have another copy we're
7 going to give you now.

14:44:37 8 THE COURT: well, which one is he going to be reading
9 from?

14:44:42 10 MS. MCMILLION: That's the one he's reading from, Your
11 Honor.

14:44:43 12 THE COURT: which one?

14:44:45 13 MS. MCMILLION: That one.

14:44:46 14 THE COURT: This one?

14:44:51 15 MS. MCMILLION: Yes.

14:45:01 16 THE COURT: All right. what's the objection here?

14:45:04 17 MR. PRICE: Your Honor, here he has gone way beyond
18 what a damages expert would say about the outer look or
19 whatever of a, quote, noninfringing alternative. Here he's
20 blending once again the Slayden patent, using prior art
21 language again, going into internal structural discussions.

22 Basically what I have highlighted, Your Honor, I
23 submit should be taken out. And the language that is not in
24 bold in italics I think is acceptable if all we're talking
25 about is a noninfringing alternative argument. which is all

1 he can do as a damages expert.

14:45:41 2 MS. MCMILLION: Your Honor, defendant would believe
3 that the Court has already ruled on the Lektron device. Mr.
4 Bratic opened the door to this testimony yesterday when he
5 gave -

14:45:50 6 THE COURT: Yes, but his real question goes to the
7 competence of this witness to testify about it. He is a
8 damages expert, and now he's comparing products.

14:45:58 9 MS. MCMILLION: And what we would submit here, Your
10 Honor, is just what he understood about these products in
11 terms of making his assessment.

14:46:12 12 THE COURT: His assessment of what?

14:46:14 13 MS. MCMILLION: In order to address the noninfringing
14 alternative issue in terms of his damage calculations. Here
15 is just his understanding of the information that was given to
16 him.

14:46:25 17 MR. PRICE: Your Honor, an example of which is why in
18 that context does he need to make any reference to, quote,
19 prior art of the iLight patent. How is that relevant
20 whatsoever to the issue of noninfringing alternative. This is
21 the exact blending of the discussion that Your Honor went
22 through before with that cautionary instruction.

14:46:45 23 Here this is not the technical expert; this is just
24 the damages expert. In fact, I would suggest he is getting
25 more extensive in his discussion than we even heard from their

1 technical experts.

14:46:57 2 THE COURT: well, for example, they include LEDs in a
3 channel with sidewalls and a thin diffuser which produces a
4 uniform neon glow. I don't know that he has taken that apart
5 and done that kind of analysis. As a damages expert?

14:47:12 6 MS. MCMILLION: well, he has been told all of this
7 information in terms of explaining to him the aspects of the
8 noninfringing alternatives and whether that should affect his
9 damage calculation.

14:47:22 10 THE COURT: I don't know that there was testimony that
11 the Lektron product was covered by a patent that's the prior
12 art of iLight's.

14:47:31 13 MR. PRICE: Exactly.

14:47:34 14 THE COURT: The Court gave the instruction that the
15 Lektron product was produced after iLight applied for its
16 patent. That was the instruction given by the Court.

14:47:46 17 MR. PRICE: Exactly.

14:47:48 18 THE COURT: This is contrary to the instruction given
19 by the Court.

14:47:55 20 MR. PRICE: And that's my concern bluntly, Your Honor.

14:47:58 21 MS. MCMILLION: Your Honor, I believe that an
22 instruction by the Court was that the Lektron product was
23 after the iLight's patent. However, there has been testimony
24 that the Lektron product is marked with the Slayden patent.

14:48:11 25 THE COURT: well, I'll tell you what. I'm going to

1 exclude beginning the second line, they include LEDs, all the
2 way down to the next to the last line of the bottom paragraph
3 so that it will read:

14:48:28 4 Here you can see iLight's Plexineon product and a
5 noninfringing alternative manufactured by Lektron. The
6 products look very similar when lit and the comparison of
7 these products are very similar and accomplish the same neon
8 light glow. Everything else is out.

14:48:48 9 Now, on Page -- well, is it Page 30 or is it 29 now?

14:48:52 10 MR. PRICE: I don't know, Your Honor. I would guess,
11 based on the last one, that it's going to be a page or two
12 back.

14:49:12 13 MS. MCMILLION: Your Honor, it's Page 30.

14:49:14 14 THE COURT: Where is the "you can see" language on
15 Page 30?

14:49:20 16 MS. MCMILLION: It's at the very bottom of the page.

14:49:22 17 MR. PRICE: It says, counsel please hold up the
18 original redesigned Newon signs. Is that not the right page?
19 Sorry, Your Honor. I was just going by the pagination.

14:49:39 20 THE COURT: It's on Page 31. The next to the last
21 paragraph on 31. I'm inclined to agree with defense, I don't
22 recall any of the comparative analysis that the expert did
23 that's similar to what this guy is saying.

14:50:24 24 MR. PRICE: In fact, the second paragraph in there,
25 which we did not object to, that's what was included in the

1 original report. We had a picture of the redesigned sign only
2 in the paragraph that follows. There was none of this first
3 paragraph in that report, no comparison to what they refer to
4 as the old Newon sign and the redesigned sign. So it's beyond
5 the report, beyond his technical expertise.

14:50:52 6 MS. MCMILLION: Your Honor, we would submit that this
7 is not beyond the scope of his report. The pictures and the
8 photographs were in the report.

14:50:59 9 THE COURT: For example, he refers to it as being
10 injection molded like the Fallon sign versus vacuum formed
11 like the old Newon sign. That's technical expert-type
12 testimony; that's not damages expert testimony. And I don't
13 remember the technical expert testifying to that.

14:51:18 14 MS. MCMILLION: We heard testimony, Your Honor, on how
15 the signs are made. And part of his damages analysis --

14:51:23 16 THE COURT: well, but I'm talking about references to
17 these two signs.

14:51:29 18 MS. MCMILLION: With respect to these two signs being
19 injection molded, part of his damages analysis and one of the
20 Georgia-Pacific factors deals with what Fallon has contributed
21 in terms of its sign in its design. And part of that being
22 that we have an injection molded sign which creates a very
23 different product than the iLight product. And that being the
24 basis of one of the factors for his damages assessment.

14:51:50 25 THE COURT: well, if somebody else testified to that

1 and he considered it relevant, I might let it go, but I don't
2 remember anybody testifying to this.

14:52:00 3 MS. MCMILLION: I believe that we have heard from Mr.
4 Nelson as well as from Mr. Cleaver as to how signs are made.

14:52:07 5 MR. PRICE: Not in terms of this particular --

14:52:12 6 THE COURT: Yes, but not in terms of the Newon signs.
7 There was a general reference as to how they used this
8 injection molding. I do remember clear references to that.
9 But the problem, the difficulty I have, is this extended
10 analysis of the Newon signs that I don't recall from anybody's
11 testimony.

14:52:29 12 MR. PRICE: And it wasn't in his expert report.

14:52:32 13 THE COURT: That's the part that I have difficulty
14 with. We'll leave first sentence in on page -- on you can see
15 the stark differences, I will leave that sentence in, and then
16 strike the rest of that paragraph. And then you can pick up
17 with the success of.

14:52:47 18 MS. MCMILLION: Okay.

14:52:53 19 THE COURT: Does that care of all those?

14:52:55 20 MR. KITTREDGE: We have another witness today.

14:52:56 21 THE COURT: Let me finish him. Are all of your
22 objections taken care of?

14:52:58 23 MR. PRICE: That's it, Your Honor. Thank you.

14:53:00 24 THE COURT: Okay. I'm going to return, with my
25 markings on it, the exclusions from the Degen report. Are

1 there any other matters before we take a recess?

14:53:09 2 MR. KITTREDGE: One other witness today, Elizabeth
3 Randgaard, that's a short videotaped deposition. She will be
4 our last witness now that Mr. Slayden won't be here. And I
5 know there are a couple objections about that, if counsel
6 wants to address that now at this point before the jury comes
7 back.

14:53:23 8 MR. PRICE: If Your Honor wants to take that up now,
9 we can.

14:53:25 10 THE COURT: Objections to whom?

14:53:28 11 MR. KITTREDGE: Elizabeth Randgaard.

14:53:31 12 MR. PRICE: This is a deposition clip that they want
13 to play, Your Honor, with respect to Elizabeth Randgaard.

14:53:47 14 MS. HUNTER: Yes, Your Honor. Do you want me to hand
15 you the transcript. I don't have this transcript highlighted,
16 but I will call out Fallon's designations.

14:53:51 17 THE COURT: All right. What page and line?

14:53:54 18 MS. HUNTER: We're starting on Page 47, Line 4,
19 through Page 49, Line 7.

14:54:14 20 THE COURT: How far down are you going on 47?

14:54:17 21 MS. HUNTER: 47, Line 4, all the way down to the
22 through the end of the page, all of 48, and then 49, Line 7,
23 would be the stop of that particular designation.

14:54:42 24 THE COURT: Okay. What is the basis for the
25 objection?

14:54:46 1 MS. HUNTER: Your Honor, our concern with this
2 particular designation is that it's attempting to create an
14:54:55 3 unpleaded design infringement cause of action against iLight.
4 And we have conducted discovery. Through discovery we found
5 that Fallon did, in fact, analyze the iLight Open sign and
6 concluded that it did not, in fact, infringe Fallon's design
7 patent on their Open sign. And we're concerned that any
8 indications otherwise might confuse the jury into believing
9 that there is, in fact, a meritorious design infringement
10 claim against iLight when, in fact, Fallon's own counsel
11 concluded otherwise.

14:55:28 12 And Your Honor, I have the document, one of the
13 relevant e-mails, in which Fallon's --

14:55:33 14 THE COURT: Hold on. Let me see.

14:55:35 15 What do you say to that objection?

14:55:37 16 MS. MCMILLION: Your Honor, nothing in this
17 designation at all addresses a design infringement case or a
18 claim for design infringement. What this passage in Ms.
19 Randgaard's testimony does address is the fact that we have
20 the Fallon neon sign, and the plaintiff has told the jury that
21 the reason we are successful with the Fallon neon sign is that
22 we copied their product. But this evidence goes to show that
23 we had a successful product that we were just attempting to
24 make a new version of. There is nothing in here that
25 references a design infringement case, there is no reason for

1 the jury to think that this would at all deal with a design
2 infringement case, and we would, therefore, submit that it is
3 relevant.

14:56:18 4 THE COURT: Well, I have more basic considerations.

5 At the bottom of Line 47, the question is:

14:56:23 6 what Fallon sign are you referring to?

14:56:26 7 I don't recall. Then she doesn't recall any of the
8 others. And then you get down:

14:56:32 9 Do you know if he's referring to cutting out the foam
10 in the Fallon Open sign?

14:56:35 11 Answer: I don't know.

14:56:38 12 Is this witness competent to testify to these matters
13 on which --

14:56:39 14 MS. MCMILLION: Yes, sir.

14:56:41 15 THE COURT -- if she doesn't recall it and she doesn't
16 know what sign it is?

14:56:46 17 MS. MCMILLION: This is her own e-mail, Your Honor.
18 And the documents through which we are taking --

14:56:47 19 THE COURT: No, ma'am. I'm talking about -- you can
20 ask her about her e-mail. But then she goes on and says she
21 doesn't know what sign that this other person in the e-mail is
22 referring to. So she can't give it any context, it seems to
23 me.

14:57:04 24 MS. MCMILLION: But you will see in the e-mail, Your
25 Honor, that -- in the original e-mail where you are talking

1 she doesn't recall from that, we also take her through the
2 series of e-mails in that e-mail chain, and she does
3 substantiate that the Fallon design of the product was what
4 was in the market at that time.

14:57:23 5 THE COURT: Where do you want to stop on Page 48 or
6 49? From 4 of 47 to how far?

14:57:35 7 MS. HUNTER: We --

14:57:37 8 MS. MCMILLION: Your Honor, if you would like, we
9 could --

14:57:39 10 THE COURT: Wait a minute. I'm asking the person who
11 is objecting. How far does your objection go?

14:57:41 12 MS. HUNTER: Your Honor, our objection goes to the
13 entire excerpt.

14:57:46 14 THE COURT: Yeah, but it's got some beginning and some
15 ending.

14:57:51 16 MS. HUNTER: From 47 -- on Page 47, Line 4 to Page 49,
17 Line 7. Our concern in particular is, this CAD drawing was
18 not Elizabeth Randgaard's. Apparently somebody from U.S.
19 Stamp said that they included it as an attachment. We haven't
20 been able to recover that particular attachment. The
21 witnesses, as you said, cannot --

14:58:17 22 THE COURT: Let me see the e-mails now so I can put
23 this in context. How does this tend to prove or disprove --
24 how does this tend to prove any defense or disprove the
25 plaintiff's case? This reference to foam?

14:59:07 1 MS. MCMILLION: Your Honor, this evidence goes to show
2 that Fallon had the successful neon product. You will see
3 that the evidence do reference the famous Fallon Open sign,
4 and that Fallon was simply attempting to introduce an LED
5 version of its current neon successful sign, which the
6 plaintiff itself recognizes in this e-mail.

14:59:30 7 Nothing in this e-mail at all references a Fallon
8 patent, a design infringement case, or anything of that
9 nature.

14:59:36 10 THE COURT: I'm sorry, say that again, ma'am?

14:59:39 11 MS. MCMILLION: Nothing in this e-mail references a
12 Fallon patent, a design infringement case, or a design patent.

14:59:48 13 MS. HUNTER: I think the important thing about this
14 excerpt is, the e-mail is from 2002. It was more than two
15 years before Fallon would even begin to start selling LED Open
16 signs. This is a --

15:00:03 17 THE COURT: I'm still trying to prove what -- trying
18 to understand what it tends to prove or disprove.

15:00:12 19 MS. MCMILLION: Your Honor is on the very first
20 section, but the designation does continue in that discussion.

15:00:18 21 THE COURT: I've got all of it before me.

15:00:21 22 MS. MCMILLION: And on Page 52, and if you look at
23 Lines 1 through 15, 16, somewhere around there. Specifically
24 Lines 9 through 14 is where the witness is addressing that
25 there is the, you know, in a vacuum formed bag like the famous

1 Fallon sign with the two arcs and the back stopping the light.

15:00:51 2 And then also, further down in the designation, she
3 goes on to say that, it's the Fallon sign with the little
4 swoosh thingies.

15:00:57 5 MS. HUNTER: Your Honor, I would like to note that on
6 Page 52, we are talking a different exhibit. Page 47 we're
7 discussing Exhibit 71 to the deposition. And starting on Page
8 50 we're talking about Exhibit 72 to the deposition.

15:01:28 9 THE COURT: Again, if you could help me out. At what
10 part of the plaintiff's case does it tend to disprove or --

15:01:34 11 MS. MCMILLION: Your Honor, I think --

15:01:37 12 THE COURT: Let me finish, if you don't mind, ma'am.

13 MS. MCMILLION: All right.

15:01:40 14 THE COURT: And what defense does it tend to prove?

15:01:41 15 MS. MCMILLION: It goes to show that Fallon's
16 development of this product was not a willful infringement.

15:01:47 17 THE COURT: That Fallon's development of this product?

15:02:01 18 MS. MCMILLION: Yes, Your Honor. That Fallon's
19 success with its LED signs was based on its desirable design
20 from its neon product, not from willfully copying iLight's
21 product.

15:02:20 22 MS. HUNTER: well, I would say two things to that.
23 First, I would say that willfulness should focus on the
24 accused infringer's conduct, certainly not the patentee's
25 conduct. And second, that the willfulness inquiry also

1 focuses on the defendant's knowledge of --

15:02:39 2 THE COURT: The only thing I get out of this is, you
3 copied some of our stuff, too. It doesn't relate to the
4 infringing product. Is that what it is? That's all this
5 strikes me as saying.

15:02:49 6 MS. MCMILLION: No, Your Honor. I believe that in
7 there we talk about the famous Fallon design, and that's the
8 current -- that was the neon design that was in the market.

15:03:54 9 THE COURT: Well, frankly, I still don't quite
10 understand the relevance of it, but out of an abundance of
11 caution I'm going to overrule that objection. What's the next
12 objection. I overrule the objection, Page 47, Lines 4 through
13 Line 7 on Page 49. What's the next objection?

15:04:11 14 MS. HUNTER: Your Honor, the next one, I believe --
15 AND if I may show the Court, next we have Page 50, Lines 4
16 through 11. And that's just authentication of a document that
17 we were objecting to on the same grounds as Exhibit 72. And I
18 have that for Your Honor. Again, it's conflating --

15:04:38 19 THE COURT: All right. It starts on Line 4, Page 50
20 and goes through where?

15:04:42 21 MS. HUNTER: Just through 11, just to authenticate the
22 document. And then really the meat of it starts, what Ms.
23 McMillion mentioned, on Page 51, Line 20 through Page 53, Line
24 17. And it's more of the same confusion, more of the same
25 design infringement allegations that have gone unpleaded for

1 the reason that we have pulled up a trial exhibit. Patent's
2 counsel has concluded that -- patent's opinion counsel has
3 concluded that there is no design infringement because
4 Fallon's design patents at the time were based on their neon
5 sign.

15:05:21 6 And they made the decision not to go after iLight for
7 design infringement. And any sort of evidence to the contrary
8 in this case is only going to confuse the jurors as to the
9 read of the matter.

15:05:32 10 MS. MCMILLION: Your Honor, we would submit that there
11 is no reference to design infringement in either of these
12 e-mails.

15:05:41 13 THE COURT: Yes, ma'am. But the core of this evidence
14 concerns some assertion of copying by the plaintiff of some
15 aspect of the defendant's work. Now, they characterize this
16 as a potential design infringement claim. Do you agree?

15:05:58 17 MS. MCMILLION: Yes. I believe that is how plaintiff
18 characterizes it.

15:06:01 19 THE COURT: No, but do you agree that this
20 characterization would only be relevant on a design
21 infringement claim?

15:06:08 22 MS. MCMILLION: No, Your Honor. We would submit that
23 the evidence is relevant also to show the success of Fallon's
24 sign that their LED sign was based off of.

15:06:18 25 THE COURT: Well, the question isn't really success.

1 The question is infringement. I don't see how it relates to
2 infringement of the plaintiff's patent or would be a defense
3 to the plaintiff's patent.

15:06:29 4 MS. MCMILLION: Your Honor, we would submit that it
5 goes to the defense to willful infringement. That that's the
6 a totality of the circumstances case.

15:06:38 7 THE COURT: That's what I'm getting back. If you
8 agree that it relates to the design infringement, I'm not
9 really sure design infringement -- what this is talking about
10 is relevant to what was infringed. Do you all have any other
11 observations on that?

15:06:58 12 MS. MCMILLION: Your Honor, it's not the design
13 infringement of our sign. It's the lines that we discussed
14 just briefly, the 9 through 14.

15:07:08 15 THE COURT: I mean, I had trouble understanding why
16 those were coming in. But out of an abundance of caution, I
17 let them in. Now it's getting even more opaque to me.

15:07:18 18 MR. KITTREDGE: It really goes to damages. Plaintiffs
19 have been alleging all week long --

15:07:23 20 THE COURT: Do you agree with my characterization that
21 what this is, is they copied some of our stuff, so consider
22 that in whether --

15:07:28 23 MR. KITTREDGE: Not at all. Not at all. They have
24 been alleging all week long that all of the success Fallon has
25 achieved with its LED product is based on stealing their

1 technology. This shows that they understood we had a famous
2 shape, a famous sign, and it's that shape, that sign, that
3 Sam's Club wanted, that is the real value of the product and
4 allows it to be successful.

15:07:56 5 That's the real relevance, to show that we really had
6 a successful sign shape and carried it on into the LED
7 products.

15:08:32 8 THE COURT: Yeah, but it seems to me the issue in this
9 case is whether the plaintiff's patent, which is for these LED
10 shaped signs, which is different from the neon signs, which
11 was gas -- whether that patent was infringed.

15:09:02 12 MR. KITTREDGE: Absolutely.

15:09:06 13 THE COURT: I mean, if you made the -- if you contend
14 -- and there is actually testimony that there is, at least in
15 storage -- you still have the old neon gas signs in storage.

15:09:16 16 MR. KITTREDGE: Absolutely.

15:09:18 17 THE COURT: And they are still offering them for sale
18 on the Internet and may have some in the stores.

15:09:22 19 MR. KITTREDGE: Yes.

15:09:25 20 THE COURT: So the issue is not those. The issue is
21 whether the -- not the design of that, but whether the patent
22 was infringed.

15:09:31 23 MR. KITTREDGE: There is also an issue of damages.

15:09:34 24 THE COURT: That's what I'm trying to figure out. The
25 damages would relate to the infringement.

15:09:38 1 MR. KITTREDGE: Absolutely, but the damages allegation
2 is more than that. It's that Fallon would not have had a
3 successful product but for infringing. And there is a lot of
4 success in this product that comes from the fact that this
5 shape, this -- it's design was so desirable.

15:09:54 6 THE COURT: which is why I go back to my earlier
7 point. If that were true, that there are other factors, why
8 wouldn't the neon gas sign be selling like the other ones are
9 selling?

15:10:08 10 MR. KITTREDGE: There is a desire for the LED and --
11 we don't have --

15:10:11 12 THE COURT: So that's really the only relevant one.
13 It's not so much design but the composition of the material
14 that composes the product.

15:10:19 15 MR. KITTREDGE: I don't agree with that, Your Honor,
16 but we don't have anything further to add. I'll tell you
17 that.

15:10:28 18 THE COURT: I'll tell you what. We'll mark these
19 pages, both pages -- Page 47, 48, 49, 50, 51, 52 and 53, those
20 will be marked as a separate exhibit that was admitted for
21 identification only. I'm having difficulty understanding --
22 to me, the issue is infringement. And the design, based on
23 the other proof, I don't think is shown to be relevant. Any
24 other objection?

15:11:21 25 MS. HUNTER: Yes, Your Honor. The final excerpts are

1 on Page 65 and 66. And it's a related issue. On Page 65, 6
2 through 14, it's authentication of Deposition Exhibit 76. And
3 then the deposition designation is on Page 66, 2 through --
4 would you agree, 17?

15:11:53 5 MS. MCMILLION: Yes.

15:12:31 6 MR. VEZEAU: 2 through 17 on Page 66.

15:12:35 7 THE COURT: Now, this is -- now, this might be more
8 probative.

15:12:43 9 MS. HUNTER: Yet again, Your Honor, we do feel that
10 this is attempting to conflate the real issues here.

15:12:50 11 THE COURT: But this one, when it makes reference to
12 the generic one, I take it it's to the generic one that iLight
13 is producing with the LEDs.

15:12:57 14 MS. HUNTER: The generic one that iLight is producing
15 with Identity Group, I believe.

15:13:01 16 THE COURT: With what?

15:13:03 17 MS. HUNTER: With Identity Group in a joint venture.
18 iLight and another company.

15:13:04 19 THE COURT: Yes, but it was with LEDs?

15:13:06 20 MS. HUNTER: Yes. Yes, Your Honor.

15:13:08 21 THE COURT: Well, then the two -- at least according
22 to this, there is some comparability between the two.

15:13:13 23 MS. HUNTER: Yes, Your Honor. We're talking about the
24 nice Fallon neon Open sign. And the design of a competing --
25 an LED sign that is going to have another aesthetically

1 pleasing design but have all of the advantages that neon does
2 not offer. And we feel that this is attempting to use --

15:13:34 3 THE COURT: I will allow this -- I will overrule the
4 objection as to Page 66 in Defense Exhibit 76. I think it may
5 go to the issue of willfulness. Anything else? We're in
6 recess.

15:22:34 7 (Recess.)

15:22:36 8 THE COURT: Any preliminary matters before we bring
9 the jury in? How many more defense witnesses after this
10 witness do we have?

15:22:44 11 MR. SAWYER: Your Honor, we'll have our damages
12 expert, and then a very short video clip that we just
13 discussed, and then we'll be done. And Your Honor, I don't
14 know when you would like us to move in exhibits, but whatever
15 is convenient for Your Honor.

15:23:03 16 THE COURT: We can move in the defense exhibits --
17 I've been letting this go a little bit because I understood
18 there was really no objection to most of the exhibits. So you
19 all can move them in en masse after the witness has come down
20 from the stand. Then you can introduce all of the exhibits
21 relating to that witness.

15:23:21 22 MR. SAWYER: Thank you, Your Honor.

15:23:24 23 THE COURT: Now, how much longer do you plan to go
24 with this witness?

15:23:31 25 MR. VEZEAU: Very short. Probably five minutes or so.

15:23:32 1 THE COURT: How long is your damages --
15:23:35 2 You all can have a seat.
15:23:38 3 How long is your damages expert report?
15:23:41 4 MR. LIPSHIE: Just about an hour, Your Honor. Maybe a
5 little bit less.
15:23:55 6 THE COURT: Okay. How long is the deposition clip?
15:23:59 7 MR. SAWYER: Two or three minutes, Your Honor.
15:24:02 8 THE COURT: We'll see if we can finish today. If we
9 finish today, I'm going to ask the jury to come back tomorrow
10 at maybe 11:00. Is there going to be any rebuttal proof?
15:24:18 11 MR. VEZEAU: Yes, we'll have I believe one rebuttal
12 witness, Your Honor.
15:24:23 13 THE COURT: And who is that going to be?
15:24:24 14 MR. SCRUTON: Dr. Roberts.
15:24:27 15 THE COURT: On what issue?
15:24:29 16 MR. VEZEAU: Their invalidity case, Your Honor.
15:24:30 17 THE COURT: Okay. How long do you expect Roberts to
18 take?
15:24:37 19 MR. SCRUTON: Probably an hour to an hour and a half
20 on direct.
15:24:49 21 THE COURT: We'll just see how it goes.
15:25:00 22 You can bring the jury in, Mr. Marshal.
15:25:36 23 (Jury in.)
15:25:40 24 THE COURT: All right. You can be seated. You may
25 continue with your cross examination of this witness, counsel.

15:25:45 1 CONTINUED CROSS EXAMINATION OF MR. HATHAWAY

15:25:47 2 BY MR. SCRUTON:

15:25:50 3 Q. welcome back, Mr. Hathaway.

15:25:50 4 A. Thank you.

15:25:54 5 Q. I won't detain you much longer. With regard to
6 exterior light absorbent sidewalls, which is a requirement in
7 at least some of the claims. As I understand it, it's your
8 position that the exterior sidewalls must be visible to the
9 observer, to an observer of the sign?

15:26:21 10 A. Yes.

15:26:24 11 Q. You are hesitating there. I don't want to
12 mischaracterize your testimony, but as I understand it, for
13 example, that your understanding is that the exterior light
14 absorbing sidewalls would have to be outside of the housing,
15 for example, in the Fallon signs; is that right?

15:26:45 16 A. Yes.

15:26:47 17 Q. Okay. I'm wondering where that comes from.
18 How do you know that?

15:26:51 19 A. How do I know it's the exterior?

15:26:53 20 Q. Right. Why isn't the outside of the wall of
21 the inner channel -- why isn't that the one that we're looking
22 at to see whether it's an exterior light absorbent --

23 A. It's not a visible part of the product. So I
24 guess in any functional sense I don't see how it enters into a
25 design or a plan. I guess that's my viewpoint of it.

15:27:22 1 Q. So you are reading that into the patent? There
2 is no language in the patent itself that you contend requires
3 that other than your understanding?

15:27:34 4 A. Would you like to go through the patent?

15:27:37 5 Q. Well, I would be happy to. If you can point me
6 to something that gives you that understanding, I would be
7 grateful. Let's bring up Exhibit 1. And this is the '238
8 Patent. And I am at your service in terms of directing her
9 because I don't know where it is. Do you want to go to the
10 claims?

15:28:01 11 A. Yeah.

15:28:15 12 Q. Okay. So let's go to probably Page 13. Page
13 15. All right. There we are, Page 18. The first claim in
14 issue here is Claim 8. If you could expand that. And sir, if
15 it's in there somewhere else that I'm not directing her to,
16 let me know. The housing is discussed down here.

15:29:01 17 A. So I think the issue comes down to the
18 exterior. Since it doesn't have an exterior surfaces in
19 reference to those sidewalls, pair of sidewalls, they are all
20 interior.

15:29:14 21 Q. Okay. So you would consider -- well, let's
22 see. Let's bring up Exhibit 29 Q.

15:29:28 23 A. Okay. This is Dr. Roberts' diagram of the
24 housing, with light transmissive member, et cetera. So here
25 is the interior sidewall. And you agree that that's an

1 interior sidewall?

15:29:40 2 A. Yes.

15:29:45 3 Q. And then here is, I guess, what's in issue.
4 This is what you're saying is not an exterior sidewall if
5 there is a further housing outside?

15:29:56 6 A. Right. As I understood the whole entire
7 concept of the unit and the design of the claims it was
8 anticipated that an exterior sidewall would -- the whole
9 purpose of it was to make it not visible to the viewer, to a
10 potential viewer. So it seems to be completely nonsensical to
11 apply that to something that's completely unrelated to the
12 actual element.

15:30:20 13 Q. But that sidewall is not visible to the
14 viewer, is what you're saying?

15:30:22 15 A. That's right. It's an interior -- to the
16 product it's interior.

15:30:27 17 Q. Now, let's suppose there were not an exterior
18 housing as in the Fallon signs, but this were just a line, a
19 linear device. Are you saying that if we were to put another
20 sidewall, maybe an eighth of an inch here outside that wall,
21 then that would absolve this of being an exterior surface and
22 everything would be forgiven? That is, it would not infringe?

15:31:01 23 A. In my view, yes.

15:31:16 24 Q. Okay. Now, you testified -- and this, I
25 believe, was at Page 16 of your testimony -- all material that

1 is visible, including a clear window, is both reflective and
2 absorptive?

15:31:26 3 A. Yes.

15:31:30 4 Q. And then elsewhere -- and unfortunately, I
5 don't have a page citation for this, but -- and you said, as I
6 discussed, the Fallon sign uses the same plastic to form the
7 entire body of the sign. So in your opinion this plastic
8 cannot be both reflective and absorptive?

15:31:51 9 A. Right. Were you asking me a question about
10 that?

15:31:54 11 Q. I was asking you if that is your testimony.

15:31:58 12 A. Yes.

15:32:01 13 Q. So you're saying the same material can't be
14 both reflective and absorptive for the purposes of this
15 patent?

15:32:08 16 A. Yeah, I'm saying that if you are calling the
17 same material reflective, it's the same material. So in one
18 section you're calling it reflective, in the other section
19 you're calling it absorptive. It's still the same material.
20 So it also seems rather nonsensical to me.

15:32:29 21 Q. Does the surface of the material affect how
22 reflective or absorptive it is?

15:32:33 23 A. Minimally.

15:32:45 24 Q. Now, you have been through the claims of this
25 various patents. So are you familiar with the fact that that

1 absorptive exterior is only a requirement of claims -- well,
2 Claim 8 of the '262 Patent and Claims 8 and 25 of the '238
3 Patent among those that are at issue in this case?

15:33:08 4 A. Okay, I am not so intimately memorized and
5 familiar with them, I would have to review them all. But I
6 could take your word on that.

15:33:15 7 Q. But you would agree that it's not implicated in
8 all of the claims that are in issue?

15:33:22 9 A. I believe that's true.

15:33:25 10 Q. I want to talk very briefly about the Lektron
11 device that we looked at. Do you have that up there?

15:33:31 12 A. Yes, I do.

15:33:37 13 Q. And are you able to turn it on up there?

15:33:42 14 A. I can turn it on on there, or perhaps --

15:33:46 15 Q. Or better, I could turn it on.

15:34:05 16 A. Here. Thank you. Yes.

15:34:07 17 Q. whoa, no doubt about that.

15:34:10 18 A. No doubt it's an LED sign.

15:34:12 19 Q. At least they are tough. Have you done any
20 analysis to determine whether this device is covered by the
21 Slayden patent?

15:34:23 22 A. You mean a claims analysis?

15:34:25 23 Q. Yes.

15:34:27 24 A. Not a -- no. Other than visually, if you look
25 at the images in the patent, in the Slayden patent, it pretty

1 much immediately appears identical.

15:34:37 2 Q. Okay. But you have not gone through the
3 Slayden patent?

15:34:41 4 A. I haven't done a detailed analysis.

15:34:45 5 Q. Okay. Now, what does the word opaque mean to
6 you?

15:34:48 7 A. Opaque? It means you can't see through it.

15:34:54 8 Q. Can't see light through it?

15:35:04 9 A. (Respite.) I would -- to me, if you are asking
10 as a technologist, I would say, no, opaque means that
11 generally no image will get through it at all, and it's
12 probably quite a bit darker than a diffuser type of material,
13 but I don't think that implies that no light would get through
14 it.

15:35:26 15 Q. Okay. A diffuser material, well, there is the
16 word translucent. That's what I think of, as something that
17 light can come through, but it has been diffused, so you can't
18 see an image through it, but you can still see a light through
19 it.

15:35:45 20 A. It's a continuum for many, many things. So
21 that's kind of an issue of where do you suddenly call
22 something one thing versus another.

15:35:52 23 Q. Okay. Would you call this opaque here? Do you
24 see where I'm indicating where we can see a band of light
25 there?

15:35:58 1 A. Yes.

15:36:02 2 Q. Would you call that opaque?

15:36:05 3 A. Yes.

15:36:11 4 Q. Okay. Have you ever seen this type of Lektron
5 device made into a sign?

15:36:17 6 A. No.

15:36:20 7 Q. And have you looked at a portion of the patent
8 specification that talks about how you could use it to make a
9 letter? Do you recall that?

15:36:31 10 A. I don't recall that.

15:36:34 11 Q. Okay. This is referring to the Slayden patent.
12 Can we bring up Exhibit 77, please. And -- all right. Let's
13 go to Column 5, which is going to be on the eighth page.
14 There we are. And about the middle of page, a few lines on
15 either side of Line 30. Okay. And what I wanted to focus on,
16 he talks -- well, it appears to me that Mr. Slayden was
17 indicating that these are pretty good for being straight, but
18 not so good for other things. He indicates, for example, four
19 90 degree connectors can be used to connect four straight
20 modules into an O configuration. Does that suggest to you
21 that it's not very adaptable for use as a sign?

15:38:08 22 A. No.

15:38:10 23 Q. Do you think something like this would be
24 adaptable for use, say, as a Budweiser sign like that?

15:38:17 25 A. Yes.

15:38:20 1 Q. But you've never seen it?

15:38:20 2 A. No. It's pretty new technology in general.

3 These things are generally fairly new, so I actually never saw

4 that particular device -- that technology until I saw that

5 device.

15:38:28 6 Q. I never have either.

15:38:30 7 THE COURT: well, like I told the other lawyer, you

8 don't get to testify, you get to ask questions.

15:38:38 9 MR. SCRUTON: Okay. And that is my final question,

10 Your Honor. Thank you.

15:38:43 11 MR. SAWYER: Your Honor, the defense doesn't have any

12 redirect.

15:38:44 13 THE COURT: You may step down, sir.

15:38:47 14 You may call your next witness.

15:38:49 15 THE WITNESS: Thank you, Your Honor.

15:39:23 16 MR. LIPSHIE: Fallon calls Carl Degen.

15:39:25 17 THE COURT: What exhibits for the defense?

15:39:29 18 MR. SAWYER: The exhibits for the defense are Exhibit

19 626, Exhibits 627, Exhibit 754 Y, Exhibit 888, Exhibit 884,

20 Exhibit 808, which I actually think is a duplicate of 29 B,

21 Exhibit 887, Exhibit 886, Exhibit 1081, Exhibit 728, Exhibit

15:40:10 22 726, Exhibit 725, Exhibit 877, Exhibit 738, Exhibit 754 Z,

23 Exhibit 72 -- I'm sorry, 74, 73, 75, 748, 76, 74, 742, 732,

24 and Your Honor, I believe this covered the reports as well,

25 but if there was -- if that didn't include the reports, there

1 will be those to go in as well.

15:40:47 2 THE COURT: All right. Without objection, the
3 exhibits will be admitted.

15:40:52 4 MR. VEZEAU: Your Honor may we reserve? We need to
5 check that we don't have any objection.

15:40:52 6 THE COURT: To the reports?

15:40:52 7 MR. VEZEAU: Pardon me?

15:40:52 8 THE COURT: To the exhibits?

15:40:52 9 MR. VEZEAU: The reports are fine. The reports are
10 fine. It's the other long list, if we may just check that
11 first.

15:41:01 12 THE COURT: All right.

15:41:07 13 (Witness sworn.)

15:41:08 14 COURT REPORTER: Please state your full name for the
15 record and spell your last, please.

15:41:12 16 THE WITNESS: Carl George Degen, D-e-g-e-n.

15:41:12 17 DIRECT EXAMINATION

15:41:20 18 BY MR. LIPSHIE:

15:41:23 19 Q. Carl G. Degen is being offered by Fallon
20 Luminous Products Corporation as an expert on damages. Mr.
21 Degen is currently the president of Christensen Associates, an
22 economics research and consulting firm located in Madison,
23 Wisconsin. Christensen Associates has provided economic
24 consulting both nationally and internationally for over 30
25 years. Mr. Degen joined Christensen Associates in 1980 as an

1 economist and has progressed senior economist, vice-president,
2 and now president. He has conducted analysis for a variety of
3 industries and provided litigation support for various cases,
4 including numerous intellectual property disputes. Mr. Degen
5 also provides intellectual property valuations outside the
6 context of litigation.

15:42:21 7 Mr. Degen is married with one college-age daughter and
8 resides in Madison, Wisconsin. He received a bachelor of
9 science degree from the University of Wisconsin Parkside in
10 mathematics and economics in 1977 and a masters degree from
11 the University of Wisconsin Madison in Economics in 1979.

15:42:40 12 Mr. Degen has served as the vice-president of the Wisconsin
13 Business Economic Association and has authored numerous
14 professional publications on various economic topics.

15:42:56 15 As an economist for the last 30 years, Mr. Degen has
16 studied economic relationships and valued economic phenomena
17 in terms of costs and benefits. He has testified regarding
18 damages in many types of cases, including intellectual
19 property, antitrust, breach of contract, and general torts.

20 Mr. Degen has measured damages for patent infringement
21 in more than 100 cases; and out of these cases he has had to
22 testify in depositions more than 30 times and has had to
23 testify in court 12 times.

15:43:31 24 Your Honor, I offer Mr. Degen as a qualified expert on
25 damages and ask that he be permitted to share his opinions and

1 testimony with the Court and jury.

15:43:40 2 THE COURT: You may do so.

15:43:42 3 THE WITNESS: Thank you.

15:43:47 4 Greetings. My name is this Carl Degen, and I'm here
5 to talk to you about damages, assuming infringement. I was
6 hired by the defendant, Fallon Luminous Products, to provide
7 my opinion regarding an appropriate measure of damages if you
8 decide that the patents are valid and that Fallon has
9 infringed them. Of course, validity and infringement is
10 beyond the scope of my expertise as an economist, and I don't
11 have an opinion on that. Before I begin, I want you to assure
12 you all that my compensation is in no way dependent on my
13 opinion.

15:44:27 14 It is my opinion that the damages in this case should
15 be a reasonable royalty of at most two percent of Fallon's
16 accused net sales; but where there are alternative designs, as
17 I understand there were in this case, the royalties should be
18 what it would have cost Fallon to make one of those
19 alternative designs. Therefore, an appropriate damage award
20 should be no more than approximately \$590,274, which is two
21 percent of Fallon's accused net sales through September 2008.

15:45:01 22 If you estimate the sales, as Mr. Bratic did, through
23 the end of trial, this would increase by \$118,000. But if you
24 agree that those alternative designs don't infringe and were
25 available, it should be \$30,000 to \$40,000, which is

1 approximately how much it would have -- it would have cost
2 Fallon to rebuild its tools and restructure its manufacturing
3 to make a different product.

15:45:29 4 As I will explain to you today, I calculate the two
5 percent royalty using the rule of thumb and a method known as
6 the Georgia-Pacific factors. My royalty ends up being on the
7 lower end of the rule of thumb range because of, one, the lack
8 of direct competition between iLight and Fallon for the
9 accused sales; two, the substantial contributions of Fallon in
10 terms of design and customer relationships; and three, the
11 existence of acceptable noninfringing alternatives.

15:46:06 12 Mr. Bratic, iLight's damages expert, calls for a
13 reasonable royalty of seven percent. His rate is much too
14 high because: One, Fallon only expected 7.7 percent net
15 operating profit, which means Mr. Bratic would have Fallon pay
16 a royalty equal to nearly its entire net profit; two, there
17 was no direct competition between iLight and Fallon for the
18 accused sales; three, Fallon contributed its relationships
19 with customers and its product design; and four, there were
20 noninfringing alternatives available in the market.

15:46:48 21 In order to form my opinion, I reviewed documents from
22 both companies, the websites of both companies, relevant
23 industry articles, the report of Mr. Bratic, and I spoke with
24 Fallon employees and Fallon's technical expert, Mr. Kevin
25 Hathaway. I needed enough information to be able to generally

1 understand the technology, the market, the nature of the
2 infringement, and the availability of noninfringing designs.
3 This information enabled me to form my expert opinion.

15:47:23 4 In order to understand my analysis, it's important to
5 understand a couple of concepts related to damages. First is
6 that when you value damages in a patent case, you have to
7 assume that the products at issue infringe the patents. This
8 is not to say that I personally believe that to be the case
9 here. However, to provide damages opinion, I have to make
10 that assumption.

15:47:49 11 Most patent damage cases involve a concept called
15:47:52 12 reasonable royalty. Both parties agree that the proper
13 measure of damages in this case is a reasonable royalty. The
14 royalty has to be reasonable, which means that a licensee --
15 I'm sorry, which means it has to be something that reasonable
16 business people would agree on -- the amount a licensee would
17 be willing to pay and the patent holder would be willing to
18 accept for the use of the technology. The licensee still
19 needs to be able to make a reasonable profit from the use of
20 the invention. Otherwise, it would not take the deal. Where
21 Mr. Bratic and I disagree is what that rate should be.

15:48:36 22 From my review of the evidence and my research, I
23 learned that iLight designs, manufactures and markets lighting
24 which uses light emitting diodes, or LEDs. iLight's Plexineon
25 product embodies the patented technology.

15:48:55 1 The signs that are at issue in this litigation all use
2 LEDs as the light source. The vast majority of Fallon's
3 accused sales consist of oval shaped Open signs sold to Sam's
4 Club and custom beer signs sold to Anheuser-Busch. The first
5 accused sale to Sam's Club occurred in late 2005. And the
6 first accused sale to Anheuser-Busch occurred in 2006. As of
7 September 27, 2008, total net accused sales were approximately
8 \$29.5 million.

15:49:33 9 I spoke with Tim Fallon, the national accounts
10 manager, to learn about Fallon's relationship with Sam's Club.
11 It is my understanding that relationships are very important
12 in this market. In the late 1980s, Fallon began supplying
13 various types of neon Open signs to Sam's Club. For a short
14 period around 2004, Sam's Club was test marketing LED Open
15 signs from a group called Identity Group Inc. The Identity
16 Group signs were manufactured by iLight. iLight licensed
17 Identity Group to sell iLight's LED signs under the brand name
18 Newon.

15:50:21 19 Counsel, would you show the jury the original Newon
20 sign.

15:50:30 21 Here you can see the Newon sign Identity Group offered
22 to Sam's Club. This is the sign that was sold to Sam's Club
23 by Identity Group prior to 2005. You can see that the design
24 includes solid raised letters spelling OPEN with an oval
25 around its perimeter. The back of the sign is made of black

1 plastic covered by flimsy foam.

15:51:03 2 Fallon has also developed an LED Open sign and offered
3 a prototype to Sam's Club during the test period. Sam's Club
4 chose the Fallon LED Open signs and began selling them in
5 early 2005. I understand that Sam's Club did not choose the
6 Identity Group's sign because it was not as sturdy and it was
7 not considered a good value. Had Fallon not been able to
8 offer an acceptable noninfringing product, Sam's Club could
9 have chosen an LED sign from another supplier, such as
10 Everbright, Prolite, or Enhance America, which all produce LED
11 signs.

15:51:46 12 In his deposition, Mr. Cleaver, CEO of iLight, pointed
13 out that he didn't know if iLight would have received the
14 Sam's Club business even if Fallon did not get the sales,
15 recognizing that there were other manufacturers that
16 potentially could have received the sales.

15:52:05 17 I also spoke with Tim Fallon regarding the
18 relationship with Anheuser-Busch. Fallon began selling neon
19 signs to Anheuser-Busch before 1980. Around 2005, Fallon
20 approached Anheuser-Busch about purchasing LED signs. iLight
21 was trying to sell its Plexineon signs to Anheuser-Busch at
22 that time. At some point in 2006, Anheuser-Busch made its
23 decision to purchase Fallon's LED signs, but not iLight's. I
24 understand that one of the reasons that Anheuser-Busch did not
25 choose iLight was that Anheuser-Busch did not have a good

1 relationship with iLight's sales representative, Eric
2 Loberfeld.

15:52:54 3 Again in his deposition, Mr. Cleaver noted that iLight
4 only hoped they would have gotten the Anheuser-Busch business.
5 They would have expected it -- quote, expected it, but he
6 admits he has no way of knowing whether iLight would have
7 gotten the business -- would have gotten this business if
8 Fallon did not.

15:53:14 9 Even if Fallon had not been able to offer an
10 acceptable non-infringing substitute, Anheuser-Busch most
15:53:23 11 likely would have just increased purchases from its other LED
12 suppliers. While Fallon currently has the largest share of
13 LED sign sales to Anheuser-Busch, Everbright and Enhance
14 America also supply LED signs to Anheuser-Busch. iLight does
15 not. I conclude that iLight would not have made Fallon's
16 accused sales, even if Fallon had not been in the market.

15:53:50 17 To determine a reasonable royalty for iLight's
18 patents, I used a Georgia-Pacific analysis, including the
19 commonly used across-industry rule of thumb. This rule says
20 that a royalty rate will typically fall between a quarter and
21 a third of the infringer's expected net operating profits.

22 Sometimes known as the 25 percent rule, the rule of
23 thumb is widely accepted as a starting point for calculating a
24 reasonable royalty. It is discussed in textbooks and articles
25 on patent valuation. I consider the rule of thumb in valuing

1 patents both inside and outside of litigation.

15:54:37 2 The rule of thumb is generally attributed to Robert
3 Goldscheider, who published an article observing an empirical
4 relationship between royalty rates and the net profit rates
5 for licensed products. He first wrote about the rule in 1971
6 but noted that in some form it has been used by valuation
7 experts prior to his writings.

15:55:05 8 In this case, Fallon expected net operating profits of
9 7.7 percent of revenues, so the rule of thumb says a starting
10 point would be 1.9 to 2.6 percent. I will discuss this more
11 in a few minutes, but I would like you to keep in mind the
12 starting range as I go through my analysis.

15:55:25 13 There is a well-known patent case called
14 Georgia-Pacific from the 1970s that sets forth a widely used
15 method for determining a royalty. The Georgia-Pacific case is
16 also taught in many textbooks and has been accepted by courts
17 in numerous cases. I use a Georgia-Pacific analysis,
18 including the rule of thumb, to determine the appropriate
19 royalty in this case. Mr. Bratic, iLight's damages expert,
20 also employs a Georgia-Pacific analysis.

15:56:01 21 The Georgia-Pacific framework calls for an analysis of
22 a hypothetical negotiation just prior to first infringement.
23 This hypothetical negotiation assumes that there are
24 reasonable business people on both sides. It identifies 15
25 factors to be considered -- the 15th being the amount a

1 licensor, the patentee, and the licensee, the accused
2 infringer, with full information, would agree to if both were
3 willingly trying to reach agreement. The Georgia-Pacific
4 framework provides a context to construct what would have
5 happened had the parties reached agreement, taking into
6 account the kinds of considerations most parties would
7 consider in that situation.

15:56:50 8 Not every factor is always relevant in each case.
9 Some are neutral and some just don't apply. In this case, Mr.
10 Bratic and I agree on the impact of five factors.

15:57:04 11 This slide shows the factors about which Mr. Bratic
12 and I basically agree.

15:57:11 13 Factor 2 is the rates paid by the licensee for the use
14 of other patents comparable to the patents at issue in this
15 case. Fallon has not been party to any utility patent
16 licenses, so this is neutral.

15:57:26 17 Factor 3 is the nature and scope of the hypothetical
18 negotiations -- or, sorry, is the nature and scope of the
19 hypothetical license. Both Mr. Bratic and I agree that the
20 hypothetical license between Fallon and iLight would have been
21 nonexclusive, causing the royalty rate to be lower.

15:57:48 22 Factor 6 is the effect of selling the patented
23 technology in promoting sales of other products. Here, both
24 Mr. Bratic and I agree there is no evidence that the accused
25 sales generated sales of any nonpatented items. This calls

1 for a lower rate.

15:58:05 2 Factor 7 is the duration of the patent and the terms
3 of the license. At the time of the hypothetical negotiation,
4 the patents would have had most of their protection remaining.
5 I consider this factor neutral, and Mr. Bratic appears to
6 agree.

15:58:22 7 Lastly, Factor 14 is the opinion of testimony from
8 qualified experts such as Mr. Bratic and me. We have both
9 provided our opinions in this matter. My analysis of the
10 other factors explains my differences with him.

15:58:41 11 I will now take you through the remaining factors and
12 explain how I believe each of these affects a reasonable
13 royalty in this case.

15:58:51 14 Factor 1 is the rights received by the patentee, the
15 licensing of patents to others, which proves or tends to prove
16 an established royalty. In other words, we look at how iLight
17 has licensed its patents to determine how it would have
18 licensed Fallon. ILight entered into agreements with three
19 companies related to its Plexineon product. As I understand
20 it, the Plexineon product embodies the patented technology at
21 issue.

15:59:23 22 The first agreement, shown here, was between iLight
23 and the Identity Group on November 12, 2002. Identity Group
24 was granted exclusive distribution in the office products
25 market, the mass retail channel, and for sign franchise

1 retailers. And iLight was required to use best efforts to
2 supply products to Identity Group as it requested them.

15:59:53 3 On April 2, 2003, Identity Group and iLight entered
4 into an interim supply and license agreement, shown here.
5 This agreement granted Identity Group the right to have the,
6 quote, printed circuit boards populated with light emitting
7 diodes, end quote, manufactured for generic signs such as Open
8 with iLight's proprietary waveguide technology. iLight agreed
9 because iLight lacked both the requisite business relationship
10 with Sam's to compete for the sales and the manufacturing
11 ability to meet expected demand. iLight did not receive any
12 royalty from Identity Group for these sales. This agreement,
13 which extended into May 2005, was in effect at the time of the
14 hypothetical negotiation. iLight would have known at the time
15 of the hypothetical negotiation that it lacked the requisite
16 relationships and capacity to make Fallon's accused sales.

16:01:00 17 The Identity Group agreements are the only iLight
18 agreements that I'm aware of that were consummated prior to
19 the hypothetical negotiation in January 2005.

16:01:15 20 On September 2, 2005, iLight entered into a Letter of
21 Intent: Profit Revenue Sharing Point of Agreement with Image
22 Works. The products included Plexineon signage and other POP,
23 that's point of purchase, products which were going to be
24 purchased by R.J. Reynolds. iLight was to contribute, quote:
25 Its patented and patent pending proprietary technology,

1 including Plexineon, engineering, manufacturing capabilities,
2 and global sourcing expertise, end quote. And Image Works was
3 to contribute, quote, its considerable expertise in retail
4 displays, in-depth design work, engineering, project
5 management, and project presentation, end quote. Essentially,
6 this relationship was to be a joint venture, not a one way
7 patent license.

16:02:16 8 In comparing this agreement to the hypothetical
9 negotiation, it is important to note that Image Works was the
10 party that had the business relationship with R.J. Reynolds
11 that made this project possible.

16:02:31 12 In deposition, Mr. Cleaver talks about Image Works
13 having invoiced the customers because they had the
14 relationships. ILight needed Image Works' relationships to
15 compete for the business just as it had needed Identity
16 Group's relationships with Sam's Club to compete for that
17 business.

16:02:54 18 Profits under the Image Works agreement were to be
19 split 50/50. Looking to the hypothetical negligence, a 50/50
20 split of Fallon's expected net operating profit of 7.7 percent
21 results in a royalty of approximately three and a half to four
22 percent. However, Fallon was only negotiating for patent
23 rights. ILight had manufacturing duties under its deal with
24 Image Works, but it would have had none with Fallon.
25 Therefore, the rate to Fallon would be substantially lower.

1 Further, Fallon contributed its own superior design of
2 the accused products, which Image Works did not do.
3 Therefore, the analogous royalty rate for a license agreement
4 with Fallon would have been substantially less than three and
5 a half percent.

16:03:54 6 The last of the agreements was between iLight and
7 Color Kinetics. Here, in 2006, iLight was on the other side.
8 It was the licensee. The agreement allowed iLight to use 35
9 separate Color Kinetics utility patents and some patent rights
10 of its affiliates.

16:04:19 11 Under this agreement, iLight agreed to pay a royalty
12 of 4 percent for the first 18 months and a royalty of 5
13 percent thereafter for all of the patents. There were other
14 royalty rates included in the agreement, but the other royalty
15 rates were on categories for which iLight had no products.

16:04:44 16 Mr. Bratic erroneously interprets the Color Kinetics
17 iLight patent license as an agreement for iLight to pay Color
18 Kinetics a royalty of the greater of \$10 or 9 percent of net
19 revenues on sales of competitive licensed products. Yet there
20 was not a single product listed in the license agreement to
21 which these terms would have applied. The list of products
22 paying 9 percent is blank.

16:05:19 23 Mr. Bratic also cites -- Mr. Bratic cites no evidence,
24 nor am I aware of any evidence, that compares the technology
25 at issue here to the technology in the 35 Color Kinetics

1 patents in terms of the importance of the technologies and the
2 expected profitability of the profits made using those
3 Technologies.

16:05:46 4 The royalty rates for products actually covered by the
5 Color Kinetics license are 4 to 5 percent. Comparability for
6 the technology in this case is unknown and purely speculative.
7 But even so, Mr. Bratic's 7 percent royalty is higher than
8 what iLight paid for the 35 Color kinetics patents.

16:06:09 9 Under this factor, Mr. Bratic also cites a
10 conversation with Mr. Kallmes. Claiming industry experience,
11 Mr. Kallmes told Mr. Bratic that royalty rates would generally
12 range from 5 to 9 percent of sales for the LED lighting and
13 light control technology. However, Mr. Kallmes does not
14 provide any license where 5 to 9 percent were made, nor does
15 he provide any evidence regarding the technology and
16 circumstances of the negotiation at issue in this case
17 relative to those represented by his, quote, general range.

18 Mr. Kallmes' representations are contradicted by the
19 actual licenses produced in this case. The Color Kinetics
20 license was for 4 to 5 percent, and it was for 35 patents
21 covering different technologies. The Identity Group license
22 was royalty free. And the Image Works license left iLight
23 with 50 percent of the profit for its patents and its
24 manufacturing.

16:07:20 25 Mr. Bratic further errs in citing Mr. Kallmes and

1 arguing that there should be a royalty premium for competition
2 when iLight could not compete for the accused sales.

16:07:37 3 Factor 1 calls for a lower royalty rate. The current
4 iLight licenses do not create an established royalty. Mr.
5 Bratic's 7 percent royalty for Fallon, where iLight had no
6 manufacturing obligation, would be well above the Image Works'
7 50/50 split of the 7.7 percent expected profit margin. His
8 opinion is higher than the average of the Color Kinetics
9 rates, and he is 7 percent above iLight's free license to
10 Identity Group.

16:08:11 11 Factor 4 is the licensor's established policy or
12 marketing program aimed at maintaining a patent monopoly where
13 they either do not license to others or only license under
14 special circumstances, or under special conditions to preserve
15 their patented monopoly.

16:08:31 16 The evidence indicates that iLight lacked the
17 requisite relationships and design to compete for Fallon's
18 accused sales.

16:08:42 19 In deposition, Mr. Cleaver stated that Fallon and
20 iLight did not compete for the business at Sam's Club. As I
21 discussed earlier, iLight entered into a marketing agreement
22 with Identity Group, and even allowed Identity Group to
23 partially manufacture the products under the terms of the
24 license. iLight entered into the joint venture agreement with
25 Image Works because iLight needed those relationships to be

1 able to compete for those sales.

16:09:17 2 The question to Mr. Cleaver was, did they, Fallon and
3 iLight, compete with each other for the Sam's business? His
4 response was, compete is the wrong word.

16:09:30 5 For all these reasons, Factor 4 calls for a lower
6 royalty rate. iLight would be giving up few, if any, sales by
7 licensing Fallon.

16:09:43 8 The fifth factor is the commercial relationship
9 between Fallon and iLight, whether they are competitors in the
10 same territory, in the same line of business, or whether they
11 are an inventor and promoter. iLight and Fallon both sell LED
12 signs in the U.S. market, so in that broad sense, they are
13 competitors. However, as I just explained, iLight knew it
14 could not compete for Fallon's accused sales.

16:10:19 15 The effect of Factor 5 is to lower the royalty. Mr.
16 Bratic and I disagree on this factor. He claims direct
17 competition for Fallon's accused sales, which is contradicted
18 by the evidence. Mr. Bratic's opinion is too high because he
19 overstates the level of competition. My royalty opinion of 2
20 percent reflects the lack of direct competition between iLight
21 and Fallon for the accused sales, which were nearly all to
22 Sam's Club and Anheuser-Busch.

16:10:49 23 Factor 8 is the profitability of the products made
24 under the patent. Are they a commercial success? And how
25 popular are they at the time of the hypothetical negotiation?

1 This factor is an analysis of whether Fallon would be
2 licensing a proven product. iLight's products, made under the
3 patent, were not profitable. It was not a proven technology.

4 You can see from this table that, through 2004, the
5 time of the hypothetical negotiation, iLight reported a
6 negative net profit each year. In 2004, iLight lost over \$1.8
7 million on sales of \$7 million.

16:11:41 8 Mr. Bratic says that iLight's products were profitable
9 because iLight showed positive gross profits. But gross
10 profits don't tell the whole story.

16:11:56 11 Gross profits are revenues less the cost of making the
12 products. Net profits are determined by further subtracting
13 selling, general and administrative expenses. iLight's
14 negative net profits show that its profits were not covering
15 all of their costs. The complete story is the fact that, at
16 the time of the hypothetical negotiation, iLight had not
17 demonstrated that its products could be profitable.

16:12:28 18 Since the hypothetical negotiation, iLight continues
19 to show negative profits. It has positive profit in only one
20 year to date. The evidence indicates that Fallon would have
21 been licensing an unproven product, which would have resulted
22 in a lower royalty rate.

16:12:52 23 Additionally, this slide shows that at the time of the
24 hypothetical negotiation, LED penetration of the neon sign
25 market was low. Mr. Bratic claims that there was commercial

1 success of Plexineon recognized by the lighting industry. But
2 the patented technology had not -- and still has not -- made a
3 large impact on the neon sign industry. Signs alleged to
4 include iLight's technology still continue to have a
5 relatively small share of the overall neon sign market, less
6 than 2 percent in 2007.

16:13:35 7 Fallon would not have been willing to pay nearly all
8 of its expected operating profit, as proposed by Mr. Bratic,
9 for an unproven technology with minimal market penetration.

10 The patented technology was unproven. It had neither
11 established profitability nor strong commercial success as of
12 January 2005. Therefore, the royalty should be lower.

16:14:09 13 Factors 9, 10 and 11 relate to the value of the
14 technology and its use. Factor 9 is the utility and
15 advantages of the patented technology over older devices that
16 were used to work out similar results. Factor 10 is the
17 nature of the patented invention and the benefits to those who
18 have used it. And Factor 11 is the extent and value of
19 Fallon's use of the invention.

16:14:37 20 while Fallon's LED sales have grown to be a
21 substantial portion of its business, the evidence indicates
22 that Fallon could have achieved similar sales using
23 noninfringing alternatives at Sam's Club and at Anheuser-Busch
24 because of the relationships it had with these two customers
25 and the availability of acceptable substitutes.

16:15:02 1 In evaluating Factors 9 and 10, Mr. Bratic overstates
2 the benefits associated with iLight patents. He believes that
3 the products are, one, effective simulation of neon lighting
4 with even light distribution and comparable brightness; two,
5 lightweight and having superior handleability characteristics;
6 three, rugged and resists breakage that normally would be
7 expected for neon lighting components, or counterparts; four,
8 environmentally friendly, requiring no neon gas and running on
9 significantly less electricity, using LEDs as illumination
10 sources; and five, easy to install without complex high
11 voltage electrical installations.

16:15:51 12 But Mr. Bratic fails to realize that all of these
13 advantages are not specific to the patents at issue. There
14 are other ways to make neon-looking signs that I understand
15 are not protected by the patents. ILight does not have an
16 overall patent on LED simulation of neon signs, or on products
17 that are more rugged than neon, or products requiring no neon
18 gas. Mr. Bratic's royalty is overstated because he relies on
19 too broad an understanding of what the patents cover.

16:16:28 20 It is my understanding that every asserted claim of
21 the patents-at-issue requires reflective sidewalls connecting
22 the circuit board to the round plastic rod that acts as a lens
23 in an LED sign. Fallon redesigned one of its products in 2008
24 to remove its sidewalls.

16:16:50 25 Mr. Bratic points out in his expert report that, when

1 evaluating Factors 9 and 10, the ability of the alleged
2 infringer to design around the patents must be considered.

16:17:06 3 I agree. At the time of the hypothetical negotiation, Fallon
4 could have simply retooled its manufacturing facilities to
5 make its current noninfringing design.

16:17:19 6 According to Richard Huo, Chief Operating Officer of
7 Fallon, the cost of retooling would have been approximately
8 \$30,000 to \$40,000. This is the amount Fallon was avoiding by
9 licensing and would have been willing to pay on the eve of
10 infringement. The only benefit of using the patented
11 technology would have been to avoid or delay the cost of that
12 retooling.

16:17:42 13 I understand there were no other benefits to keeping
14 the sidewalls. They do not increase brightness, uniformity or
15 other neon-like appearances. I also understand that solid
16 sidewalls make the LED signs heavier, which is generally less
17 desirable and more expensive to produce.

16:18:06 18 Counsel, would you hold up the redesigned Budweiser
19 sign.

16:18:16 20 I don't know if you can see this or not, but the
21 plastic lenses are attached directly to the cover, and, as
22 we've heard in testimony, there are no sidewalls extending
23 from the circuit board to that cover inside those letters.
24 Because Fallon had the ability to manufacture this sign at the
25 time of the hypothetical negotiation, it would not likely have

1 been willing to pay a royalty in excess of its retooling
2 costs.

16:18:46 3 Mr. Bratic, in his opinion, recognized the need to
4 consider design arounds, but failed to consider that Fallon
5 could have and actually did design around the patents-in-suit.

6 Mr. Bratic overstates the significance of the advance
7 that the patents-in-suit represent over old molds or devices.
8 He also says that any attempted to design around, at the time
9 of first infringement, would have required time, money and
10 effort, and the resulting product would have been more
11 expensive to manufacture.

16:19:21 12 However, in the normal course of its business, Fallon
13 has been able to implement the simple design around, and I
14 understand could have employed -- could have been employed
15 around the time of the hypothetical negotiation.

16:19:35 16 The patents are not a major breakthrough, and there
17 are other alternatives to simulate neon. Other manufacturers
18 have also developed noninfringing alternatives, none of which
19 are accused of infringement.

16:20:02 20 Counsel, would you show the jury the Lektron and
21 Plexineon signs.

16:20:07 22 MR. PRICE: May we approach, Your Honor?

16:20:10 23 THE COURT: Yes, sir.

16:20:10 24 (Whereupon, a bench conference was held, out of the
25 hearing of the jury, to wit:)

16:20:27 1 MR. PRICE: He just changed the script from products
2 to signs, and he's bringing out two pieces of product, not
3 signs.

16:20:38 4 MR. LIPSHIE: Your Honor didn't say that we couldn't
5 show those lights.

16:20:42 6 MR. PRICE: No, no, no. That wasn't it. He just
7 changed the script. He said, I show you two signs, not the
8 products.

16:20:53 9 (Conclusion of bench conference.)

16:21:00 10 THE COURT: If you will stay with your narrative, sir,
11 as worded.

16:21:17 12 THE WITNESS: Here you can see iLight's Plexineon
13 product and a noninfringing alternative manufactured by
14 Lektron. The products look very similar when lit. In this
15 comparison, you can see that the products are very similar and
16 accomplish the same neon-like glow. This noninfringing
17 alternative is further evidence that iLight's patent is not a
18 significant advance and that a lower royalty is appropriate.

19 Factors 9 and 10 argue for a lower royalty. Mr.
20 Bratic fails to account for the many ways to produce
21 neon-looking alternatives and ignores that Fallon could have
22 and actually did accomplish it without infringing the
23 patents-in-suit.

16:22:13 24 Factor 11, on the other hand, could argue for an
25 increase in the royalty rate. Fallon has been successful with

1 the use of the technology, and its products have done
2 reasonably well, though the evidence indicates its design and
3 relationships were likely responsible for most of that
4 success. Overall, these factors, considered together, support
5 the lower royalty rate.

16:22:42 6 Factor 12 is a portion of the profit or selling price
7 that is customary in the sign industry or in comparable
8 industry that would allow for the use of the invention or
9 analogous inventions. Beyond the licensing I just discussed,
10 I'm unaware of any customary profit allocations specific to
11 this industry. However, as I explained earlier, I employed
12 the widely accepted cross industry rule of thumb as my
13 starting point for calculating the reasonable royalty. The
14 rule of thumb says that a starting point would be one quarter
15 to one third of expected net profits.

16:23:21 16 The hypothetical negotiation would have occurred in
17 January 2005. As part of its normal course of business, Fallon
18 had developed a forecast of its overall expected profitability
19 for 2005.

16:23:40 20 Table 4 here shows Fallon's expected net operating
21 profit for -- was 7.7 percent for 2005, which was up from 5.7
22 percent in 2004. Fallon's CFO, Leah White, told me that this
23 would have been Fallon's best measure of its expected
24 profitability on LED products at the time of the hypothetical
25 negotiation. This amount is also in line with Mr. Bratic's

1 analysis showing actual net operating profits of 8 percent
2 from Fallon's LED products.

16:24:27 3 As Table Five shows, using Fallon's expected 7.7
4 percent net operating profit, the rule of thumb suggests a
5 starting point for a royalty between 1.9 and 2.6 percent. The
6 other Georgia-Pacific factors determine the final royalty.

7 Mr. Bratic errs in his evaluation of this factor
8 because he incorrectly uses gross rather than net profits.
9 Gross profits do not determine the viability of a company.
10 Companies consider net profits when determining whether to
11 offer a product and what they are willing to pay to license
12 technologies for that product.

16:25:06 13 This slide is an excerpt from Mr. Goldscheider's
14 article that we looked at earlier. He makes it very clear
15 that the rule of thumb applies to net, not gross, profit. The
16 rule of thumb is intuitively appealing. Most people expect
17 that a company's willingness to pay for something would be
18 some portion, but not all, of the profits it expects to make.

19 Mr. Bratic's profit analysis focuses on a comparison
20 of Fallon's accused and nonaccused products, but he does no
21 analysis of the details of the underlying sales to determine
22 what other factors, such as high volume customers, may have
23 caused the observed differential in profits.

16:26:07 24 A more meaningful analysis would be would to compare
25 Fallon's expected operating profit for 2005, which is 7.7

1 percent, with the accused products, to its actual operating
2 product in 2004, which is 5.7 percent, without the accused
3 products. The difference is 2 percent.

16:26:31 4 Fallon is in business to earn a bottom line profit.
5 Fallon would not have taken on the business risk for the
6 accused sales if it had to pay nearly all of its expected net
7 operating profits and license fees. At the time of the
8 hypothetical negotiation, Fallon expected a net profit of 7.7
9 percent, which is very close to the operating margin it has
10 actually achieved on the accused sales.

16:26:59 11 Mr. Bratic's 7 percent royalty is clearly
12 unreasonable, given Fallon's profit expectations. A more
13 appropriate royalty would be the 2 percent as I have explained
14 it to you.

16:27:15 15 Factors 13 is the portion of the realizable profit
16 that should be credited to the invention as distinguished from
17 nonpatented elements, the manufacturing process, business
18 risks, or significant features or improvements added by
19 Fallon. As we have discussed, Fallon took on the business
20 risk of developing and manufacturing its own product. At the
21 time of the hypothetical negotiation, Fallon's products were
22 very different from iLight's products because of Fallon's own
23 design efforts.

16:27:49 24 As I discussed earlier, Fallon's product was
25 sufficiently superior in overall quality, that Sam's Club

1 chose it over the iLight product offered by the Identity
2 Group. Sam's Club would not have purchased additional iLights
3 from the Identity Group, even if Fallon had left the market.

4 Fallon's products are more profitable than iLight's
5 products. I understand that the principal drivers of Fallon's
6 profits are its design and use of LEDs in its products.
7 iLight's invention focuses on the solid rod waveguide and
8 reflective sidewalls. I understand that neither of these
9 characteristics are drivers of Fallon's profit margin.

16:28:35 10 It is also my understanding that Fallon's accused
11 products included a curved lens, where iLight's products have
12 a solid rod lens. The curved lens requires less material,
13 making it less expensive to produce and lighter in weight,
14 which are both desirable characteristics not attributable to
15 the patented technology.

16:29:00 16 Another indicator of Fallon's contributions beyond the
17 patented products is the fact that, after iLight failed in
18 selling its Plexineon product to Sam's Club, and after iLight
19 terminated its relationship with the Identity Group, the
20 Identity Group created a redesigned product which looks very
21 similar to Fallon's. The Identity Group subsequently sold its
22 Fallon-like product to Sam's Club under the Newon brand. I
23 understand that the Identity Group's product is not accused by
24 iLight and pays no royalty to iLight.

16:29:38 25 Counsel, please hold up the original and redesigned

1 Newon signs and the accused Fallon sign.

16:29:54 2 MR. LIPSHIE: These are Exhibits 734 A, 735 and 725,
3 Your Honor.

16:30:04 4 THE COURT: All right.

16:30:07 5 THE WITNESS: You can see the stark differences
6 between this redesign, redesigned Newon sign, and the original
7 Newon sign, as well as the similarities between it --

16:30:21 8 MR. PRICE: May we approach?

16:30:36 9 THE COURT: Yes. Hold on.

16:30:36 10 (Whereupon, a bench conference was held, out of the
11 hearing of the jury, to wit:)

16:30:38 12 MR. PRICE: Unless I'm missing something, this is
13 exactly what was struck.

16:30:42 14 MS. MCMILLION: Your Honor said that the first
15 sentence of that paragraph would be read and was not struck
16 from the script.

16:30:52 17 MR. PRICE: All I got was after stark differences,
18 boom. Because everything else is comparing the two signs.

16:30:59 19 MS. MCMILLION: And he did not read it into the
20 record.

16:31:02 21 MR. LIPSHIE: He did not.

16:31:18 22 THE COURT: Where is his testimony?

16:31:21 23 MR. PRICE: I haven't seen the markup, Your Honor.
24 Yours is different than what I wrote down. That may be my
25 bad.

16:31:43 1 (Conclusion of bench conference.)

16:31:49 2 MR. LIPSHIE: All right, Mr. Degen. You can proceed.

16:31:51 3 THE WITNESS: Where do I proceed?

16:31:54 4 THE COURT: The last sentence you read, sir. Start

5 with the first paragraph. The first sentence of that

6 paragraph near the bottom of the page.

16:32:01 7 THE WITNESS: Okay. You can see the stark differences

8 between -- you can see the stark differences between this

9 redesigned Newon sign and the original Newon sign, as well as

10 the similarities between it and the Fallon sign.

16:32:30 11 The success of Identity Group with its redesigned

12 product, which appears to be modeled after Fallon's original

13 LED product, demonstrates the value of Fallon's design

14 contribution to the accused products beyond the patented

15 technology.

16:32:49 16 The Identity Group sign also demonstrates another

17 noninfringing design. Finally, Identity Group's success is

18 another example of the importance of relationships in this

19 market.

16:33:04 20 Fallon's substantial contributions call for a lower

21 royalty rate. My reasonable royalty, unlike Mr. Bratic's,

22 reflects the fact that Fallon made significant contributions

23 in terms of design and took on the business risk of developing

24 and manufacturing its own unique product.

16:33:23 25 Also, Fallon contributed existing business

1 relationships that were important to making the accused's
2 sales. Mr. Bratic fails to account adequately for Fallon's
3 contribution. The result is his overstated royalty rate
4 opinion.

16:33:43 5 The last Georgia-Pacific factor would be to determine
6 the amount that iLight and Fallon would have agreed upon at
7 the time the infringement began if both had been reasonably
8 and voluntarily trying to reach an agreement. In essence,
9 this factor is a summarizing factor which takes into account
10 all the other 14 factors.

16:34:09 11 From a review on a factor by factor basis, only one
12 factor can arguably support a higher royalty. When all
13 factors are considered together, the facts and circumstances
14 of this case call for a lower royalty. It is my opinion that
15 a reasonable royalty would be no more than two percent of
16 infringing revenues. This represents over 25 percent of
17 Fallon's expected profit.

16:34:40 18 This slide summarizes my opinion. A royalty of 2
19 percent falls within the across-industry rule of thumb based
20 on expected profitability. It is at the lower end of the rule
21 of thumb because of the lack of direct competition, the
22 substantial contributions of Fallon in terms of design and
23 relationships, and the existence of several acceptable
24 noninfringing alternatives.

16:35:05 25 Therefore, the damages in this case should be a

1 reasonable royalty of at most 2 percent of Fallon's net sales,
2 which is \$590,274, based on the actual sales through September
3 2008. If you estimate the sales as Mr. Bratic did through the
4 end of trial, it wouldn't change -- through the end of trial,
5 it wouldn't change the 2 percent royalty percentage, but it
6 would increase the royalty payment by approximately \$118,000.

16:35:39 7 But if you agree that Fallon's current, nonaccused
8 technology could have been implemented, then the appropriate
9 damage award would be \$30,000 to \$40,000, which is
10 approximately how much it would have cost Fallon to rebuild
11 its tools and restructure its manufacturing. This would be
12 more than iLight's opportunity cost inasmuch as the evidence
13 indicates that iLight lost no sales.

16:36:07 14 From Fallon's side, paying the retooling cost as a
15 royalty would have allowed it to continue selling without
16 having to retool, though it may have done so anyway as it
17 improved its product.

16:36:24 18 MR. LIPSHIE: Thank you, Mr. Degen.

16:36:28 19 THE COURT: You may cross examine.

16:36:28 20 CROSS EXAMINATION

16:36:29 21 BY MR. PRICE:

16:36:32 22 Q. Good afternoon, Mr. Degen. I'm Stephen Price.
23 We met earlier. I'm one of the attorneys representing iLight
24 in this case.

16:36:39 25 A. Good afternoon.

16:36:41 1 Q. I'm going to first start out by asking you some
2 questions about this 7.7 percent expected net operating
3 profits figure that you used. If I understood your testimony,
4 you believe Mr. Bratic's 7 percent royalty rate is too high
5 because Fallon only expected a 7.7 percent net operating
6 profit in 2005; is that correct?

16:37:04 7 A. Not completely.

16:37:05 8 Q. Well, I'm quoting verbatim from your narrative.
9 Is that inaccurate?

16:37:10 10 A. Well, but I also explained in my narrative that
11 Leah White told me that that would have been their best
12 estimate of what their expected profitability would be from
13 their LED lights. So both of those things I relied on.

16:37:25 14 Q. I see. You led me right to my next question.
15 I appreciate that. Because you specifically testified later
16 that Fallon had, quote, developed a forecast of its overall
17 expected profitability for 2005, including an, quote, expected
18 net operating margin of 7.7 percent; isn't that correct?

16:37:42 19 A. That's correct.

16:37:46 20 Q. So the 7.7 Figure you rely on is the overall
21 expected net operating profits in 2005 for all of the products
22 sold by Fallon, including its neon signs; isn't that correct?

16:38:02 23 A. I rely on it. It was historically the forecast
24 going forward, but I was also told by Leah White that it would
25 be their best estimate of what would have been earned on the

1 LED lights. In fact, Mr. Bratic's analysis confirmed that
2 their actual profit on the LED lights was 8.1 percent in terms
3 of net operating profit, so they are all very consistent.

16:38:26 4 THE COURT: It would be helpful, sir, listen to his
5 question. Respond to his question. If there is some
6 clarification, the other lawyer is going to get back up and
7 clarify.

16:38:38 8 THE WITNESS: Okay.

16:38:38 9 BY MR. PRICE:

16:38:38 10 Q. The reason you are relying on the overall
11 expected profitability, because those are the only damages --
12 I'm sorry, those are the only figures that Fallon was then
13 tracking at the time of the hypothetical negotiation; isn't
16:38:48 14 that correct?

16:38:50 15 A. That's correct. It's always the case that
16 there is no actual profitability for the accused product
17 because it hasn't been made yet, so it's a very, very standard
18 approach.

16:39:02 19 Q. I realize -- they weren't tracking that data
20 for just LED sales or for just the neon sales at that time,
21 were they?

16:39:11 22 A. They couldn't. There were no LED sales prior
23 to the first sale that was accused.

16:39:17 24 Q. But they didn't track it at all, even on the
25 actual, at that point; isn't that correct?

16:39:20 1 A. I'm guess I'm missing something. It didn't
2 exist. They could not track it. There were no LED sales.

16:39:26 3 Q. I understand. But even on the actuals in 2005,
4 they were not segregating that data between neon versus LED on
5 the operating cost manner. So when you are looking at overall
6 net profit margin, you are looking at the overall products,
7 neon included, not just LED; isn't that correct, sir?

16:39:45 8 A. I guess I'm confused. When you are talking
9 about 2005, are you talking about January before the
10 hypothetical negotiation? Or are you asking about all of
11 2005, even after the first accused sale?

16:40:00 12 Q. Well, A, when you are using the 7.7 figure,
13 once again, you are looking at only the overall net operating
14 profit, which would be applicable to both neon signs as well
15 as the LED signs; isn't that correct, sir?

16:40:17 16 THE COURT: well, his question is, for what year?

16:40:20 17 MR. PRICE: Yes, I know. And I'm talking about 2005.

16:40:22 18 THE COURT: At the end of 2005 or the beginning of
19 2005?

16:40:24 20 BY MR. PRICE:

16:40:33 21 Q. well, we actually covered both. And at the
22 beginning, the 7.7 figure you are talking about, it was a
23 forecast Figure for 2005; correct?

16:40:37 24 A. That's correct.

16:40:38 25 Q. And that forecasted figure was not broken down

1 between the net operating profit margin for LED signs as
2 opposed to neon signs; correct?

16:40:41 3 A. That's correct.

16:40:44 4 Q. And they didn't break their data down in that
5 type of manner in the forecast?

16:40:47 6 A. They did not.

16:40:50 7 Q. So the 7.7 figure you are relying on is not the
8 expected net operating margin for only the accused LED signs
9 at issue; isn't that true?

16:41:03 10 A. As I've already explained, --

16:41:04 11 Q. Is it true or not?

16:41:07 12 A. The 7 percent -- 7.7 percent Figure I'm relying
13 on, I'm relying on because Leah White told me it would have
14 been their best available estimate of what their expectation
15 for LED was. Expectation is a relevant concept. And Leah
16 White told me it was the best evidence of their expectation.

17 I was also aware at that point that Mr. Bratic's own
18 analysis was confirmatory of that expectation. So I was very
19 comfortable relying on her representations to me that that's
20 what I -- Fallon would have expected in January of 2005 when
21 it was negotiated.

16:41:54 22 Q. And Ms. Leah White, the CFO, so advised you
23 because they did not track that data segregating between the
24 accused products, the LED signs, and the neon products that
25 are not at issue?

16:42:08 1 A. I didn't explore with her why she told me that,
2 but in her opinion, as the CFO of the company, if they were
3 negotiating in 2005, in January of 2005, she told me that
4 their expected profit for their LED sales would be consistent
5 with their overall expected profit, which was 7.7 percent.

16:42:31 6 Q. Ms. White did not have those expected figures
7 based only on LED signs, did she? She only had them on the
8 overall product line, neons included?

16:42:42 9 THE COURT: Did they do any projection of LED sales
10 for 2005? In January?

16:42:48 11 THE WITNESS: Not that I had seen in this case.

16:42:48 12 BY MR. PRICE:

16:42:49 13 Q. Thank you.

16:42:52 14 A. And not separate from their overall business.

16:42:54 15 Q. Exactly. And that's my point.

16:42:57 16 THE COURT: Well, ask questions.

16:42:59 17 MR. PRICE: Thank you, Your Honor. I apologize.

16:42:59 18 BY MR. PRICE:

16:43:03 19 Q. Let me ask you some more questions about the 25
20 percent rule of thumb. Now, isn't it true that you then
21 applied the Goldscheider 25 percent rule of thumb to this 7.7
22 percent figure as your starting point, to come up with a
23 royalty range of 1.9 percent to 2.6 percent; is that correct?

16:43:23 24 A. No. Goldscheider's 25 percent rule of thumb is
25 an older version of the rule of thumb. The rule of thumb I

1 employed is a quarter to a third. And that's why I got a
2 range rather than a number. So the 1.9 to 2.6 represents what
3 I think is a current embodiment of the rule of thumb, which is
4 a quarter to a third as the starting range.

16:43:47 5 Q. I see. So you applied this rule of thumb to
6 the 7.7 figure to come up with that 1.9 percent to 2.6 percent
7 range?

16:43:55 8 A. That's correct.

16:43:56 9 Q. Okay. After discussing the Georgia-Pacific
10 factors, you then concluded that the applicable rate should be
11 2.6 percent here?

16:44:04 12 A. That's correct.

16:44:09 13 Q. And there is only a 0.6 percent difference
14 between the 2 point -- the 2 percent royalty rate you
15 recommended on the upper end that you started with, isn't that
16 correct?

16:44:18 17 A. I think you need to do that one again.

16:44:23 18 Q. I apologize. Sometimes numbers --

16:44:26 19 THE COURT: It only came down .6 percent from your
20 original projection of the range, the ultimate figure, is that
16:44:31 21 it?

16:44:35 22 THE WITNESS: Well, the original range is a range, and
23 two percent is .6 below the upper bound and .1 below the lower
24 bound. Does that answer your question?

16:44:41 25 BY MR. PRICE:

16:44:44 1 Q. Yes. So your ultimate recommendation was 2
2 percent, and that was a 0.6 percent difference from the upper
3 range you started with?

16:44:54 4 A. Correct.

16:44:57 5 Q. And it was only a 0.1 percent difference
6 between the lower end of the range you started with?

16:45:00 7 A. Correct.

16:45:02 8 Q. You also had mentioned, in discussing the
9 Georgia-Pacific factors, that you and Mr. Bratic you thought
10 agreed on certain factors. You specifically testified that
11 both Mr. Bratic and you agreed that the hypothetical license
12 between Fallon and iLight would have been nonexclusive,
13 causing the royalty to be lower, didn't you?

16:45:20 14 A. Yes.

16:45:23 15 Q. Now, you did review Mr. Bratic's expert report
16 and narratives, did you not?

16:45:25 17 A. Yes, I did.

16:45:27 18 Q. But Mr. Bratic never said in his report or in
19 his narratives that this factor caused the royalty to be
20 lower, did he?

16:45:33 21 A. I thought he did.

16:45:36 22 Q. Would you be surprised to find that he never
23 did?

16:45:39 24 A. A little bit.

16:45:43 25 Q. So that was your conclusion, was it not?

16:45:46 1 A. I don't recall that he made a big deal about
2 it. I thought he had at one point indicated that exclusive
3 was generally worth less than nonexclusive. I would be
4 surprised if he wouldn't admit that. So whether he actually
5 came out and said it, or whether it was his admission that it
6 was nonexclusive, I just read into that that anybody who is in
7 licensing knows nonexclusive means lower.

16:46:17 8 Q. So you inferred that?

16:46:17 9 A. I may have.

16:46:18 10 Q. Okay.

16:46:18 11 A. Again, I can't point to where he said it, and I
12 may have inadvertently said that. But usually nonexclusive
13 means lower.

16:46:26 14 Q. You also testified that, quote, both Mr. Bratic
15 and I agree that there is no evidence that the accused sales
16 generated sales of any nonpatented items, and this calls for a
17 lower rate, did you not?

16:46:39 18 A. Yes.

16:46:41 19 Q. But once again, Mr. Bratic never said in his
20 report nor in his narratives that this factor calls for a
21 lower rate, did he?

16:46:48 22 A. Again, I may have just been inferring it from
23 the fact that there were no ancillary sales, which means it's
24 going to be lower. Whether he actually came out and said that
25 or not, I don't recall. But I do recall him for sure

1 admitting that there were no ancillary sales.

16:47:05 2 Q. But once again, this was your conclusion, not
3 Mr. Bratic's, that it called for a lower rate, wasn't it?

16:47:13 4 A. Again, reading that there were none, I may have
5 inferred that. I apologize if I did. But if we both agree
6 that there are no ancillary sales, I think that argues for a
7 lower rate, and I don't see him disagreeing.

16:47:28 8 Q. Well, suffice it to say I understand he does.
9 But we can move on.

16:47:31 10 A. Okay.

16:47:33 11 Q. Let's talk about noninfringing alternatives.
12 It is your position I understand that, quote, had Fallon not
13 been able to offer an acceptable noninfringing products, Sam's
14 Club could have chosen an LED sign from another supplier,
16:47:46 15 isn't it?

16:47:46 16 A. Yes.

16:47:49 17 Q. But you personally don't have the technical
18 expertise to do such a product comparison, do you?

16:47:55 19 A. I'm not a technical expert.

16:47:55 20 Q. Yes.

16:48:02 21 A. I do note that Sam's did buy the redesigned
22 Newon sign, which I believe Mr. Cleaver said is not accused.
23 So I have a market observation of them, of Sam's Club, willing
24 to accept a design with a squared off waveguide in -- I can't
25 remember if it was 2006 or 2007.

16:48:22 1 Q. So you are you're talking about the sign they
2 held up with the big block letters, a much bigger size than
3 what neon comes in? Is that what you are talking about?

16:48:37 4 A. I'm talking about the redesigned Newon sign. I
5 think it has hours at the bottom of it. But the open part of
6 it -- my understanding is the open part of it is made with a
7 squared off waveguide, and that's why it doesn't infringe.

16:48:51 8 Q. Exactly. It's a classic back lit sign. I'm
9 with you. Okay. But in fact, you don't know whether Sam's
10 Club would have found any such signs to be a, quote, unquote,
11 acceptable alternative, do you?

16:49:03 12 A. Well, they are currently selling it. I'm
13 opening the book of wisdom a little bit to say they like it
14 now, they clearly view it as acceptable, in today's market I'm
15 not aware that anything has changed.

16:49:17 16 Q. But you're not suggesting, sir, that the
17 redesigned Newon sign with the big block letters is attempting
18 to simulate neon, are you?

16:49:25 19 A. It sure looks that way to me.

16:49:31 20 Q. Okay. Now, --

16:49:33 21 A. It's not a neon sign.

16:49:37 22 Q. Absolutely. No contest on that. Mr. Degen,
23 you also personally don't have the personal expertise to opine
24 as to whether the Lektron and Plexineon products are
25 comparable in structure, do you?

16:49:52 1 A. No, I do not.

16:49:55 2 Q. Now, you asked Fallon's counsel to come up here
3 and show the Lektron architectural trim product as well as the
4 Plexineon architectural with trim product, didn't you?

16:50:05 5 A. Correct.

16:50:09 6 Q. You have never seen that Lektron product ever
7 been made into a sign, have you?

16:50:15 8 A. I don't think it has ever been made into a
9 sign, is my understanding.

16:50:21 10 Q. Exactly. Let me ask you about some of the
11 agreements that you discussed iLight had. Specifically, you
12 assert that, quote, Mr. Bratic's analysis is contradicted by
13 the fact that iLight has licensed its LED patents to other
14 sign companies, don't you?

16:50:34 15 A. Yes.

16:50:38 16 Q. Now, when you make that assertion, are you
17 referring to iLight's agreements with the Identity Group and
18 Image Works?

16:50:43 19 A. Yes.

16:50:46 20 Q. Now, both the Identity Group's and Image Works'
21 agreements with iLight involved cooperative partnerships to
22 jointly make and sell LED signs to certain customers or
23 markets, didn't they?

16:51:02 24 A. Correct. Specifically in the IDG case, Sam's
25 Club, which is the sales that were at issue at the time of the

1 hypothetical negotiation. So we're talking about iLight
2 entering into an agreement with Identity Group to access the
3 very customer that they are not claiming they would have
4 gotten separate sales for.

16:51:23 5 Q. But this is a collaborative effort; right?
6 iLight made certain parts of the waveguide, it marked it up,
7 sold it to Identity Group, made a profit from it, from the
8 mark-up, then they in turn sold it to people like Sam's Club;
9 correct?

16:51:37 10 A. Yes.

16:51:39 11 Q. Okay. Now, on the other agreement, Image
12 Works, I believe you specifically described it as a joint
13 venture to sell LED signs to R.J.R.?

16:51:50 14 A. That's the way I understood it, yes.

16:51:54 15 Q. And not a one-way patent license as involved in
16 the negotiation here; correct?

16:51:56 17 A. Correct.

16:51:58 18 Q. Now, on the other hand, Fallon -- they were
19 competing with iLight to sell LED signs to R.J.R., weren't
20 they?

16:52:06 21 A. No. My understanding is that iLight really
22 wasn't in a position to sell to R.J.R. Only through these
23 kinds of joint ventures --

16:52:15 24 Q. I don't think you heard my question. My
25 question was, on the other hand, Fallon was competing with

1 iLight, and in a sense Image Works with iLight, to sell LED
2 signs to R.J.R., weren't they?

16:52:28 3 A. Correct.

16:52:31 4 Q. So on the one hand you had collaborative
5 relationship between people like Image Works and iLight, on
6 the other hand, you had a competitive relationship between
7 iLight and Fallon?

16:52:42 8 A. Is that a question?

16:52:43 9 Q. Yes.

16:52:46 10 A. Okay. Let me respond then. What these
11 licenses demonstrate to me is that iLight, basically an
12 architectural trim company, is finding it necessary to form
13 agreements to share its technology in order to access the sign
14 market, because it doesn't have the relationships, it doesn't
15 have the design power. It tried to do that with IDG, and it
16 produced a junky sign that Sam's didn't want. It did it
17 successfully with R.J. Reynolds, and they were able to sell
18 the Camel sign.

16:53:30 19 But they competed in numerous other places, even where
20 Fallon was not the winning sign, and they couldn't get the
21 business.

16:53:35 22 So all of this discussion is under the Georgia-Pacific
23 factor, in terms of the competitive relationship, and are they
24 working to maintain their monopoly? Are they trying to keep
25 it all for themselves?

16:53:43 1 And I think pretty clearly what's happening here is
2 that iLight realized that they needed to share their
3 technology, they needed to partner, they needed to license, to
4 access the sign market.

16:53:57 5 Q. Mr. Degen, you referred to the Identity
6 Group/iLight sign as junky, flimsy. You are referring to a
7 sign they made together back in 2004; right?

16:54:05 8 A. Yes.

16:54:08 9 Q. You weren't talking about the sign that iLight
10 made separately, an Open sign, that it then took on its own to
11 Sam's Club?

16:54:15 12 A. In 2006?

16:54:16 13 Q. Yes.

16:54:16 14 A. Yes.

16:54:19 15 Q. You weren't talking about this sign?

16:54:22 16 A. I was not. Although I understand Sam's didn't
17 want this one, either.

16:54:25 18 Q. Correct. And at that time, Fallon was then
19 selling its accused products to Sam's Club already. They
20 started that in 2005, did they not?

16:54:35 21 A. Well, I think the e-mail from the Loberfeld
22 made it clear that Sam's didn't like the appearance.

16:54:43 23 Q. That's not my question.

16:54:44 24 Your Honor, the witness --

16:54:46 25 THE COURT: Please answer the question. The other

1 side will get in. He will ask it.

16:54:50 2 THE WITNESS: Okay.

16:54:50 3 BY MR. PRICE:

16:54:53 4 Q. I asked you, at the time that iLight went to
5 Sam's with their own redesigned sign, there is no foam backing
6 or anything on this one?

16:55:05 7 A. That's correct.

16:55:07 8 Q. At that time Fallon had already come in and
9 solid the accused signs in 2005 to Sam's Club, had they not?

16:55:12 10 A. That's correct.

16:55:17 11 Q. Okay. Oh, and the sign I'm holding, Your
12 Honor, is Plaintiff's Exhibit TX-6-D.

16:55:37 13 Let me ask you about the competition you are referring
14 to. It's your position, as I understand it, that there was
15 no, quote, direct competition between iLight and Fallon with
16 respect to Sam's Club and Anheuser-Busch; correct?

16:55:50 17 A. Correct.

16:55:54 18 Q. Would you display TX 26, please. Particularly,
19 will you focus on the first full paragraph in that e-mail,
20 please.

16:56:11 21 We're looking at an e-mail dated December 3, 2005 from
22 Tim Demmond, Fallon's vice-president of sales. In that e-mail
23 Mr. Demmond says:

16:56:26 24 AB said they are going to order 70,000 units these
25 products --

16:56:27 1 AB being Anheuser-Bush.

16:56:29 2 -- and they absolutely need to have version 2 in their
3 hands next week. We either deliver or they buy from iLight.
4 Our fate is in our hands.

16:56:39 5 Is it still your position that iLight was not
6 competing with respect to Anheuser-Busch, sir?

16:56:45 7 A. Yes. That same e-mail includes references to
8 three companies -- Pepsi, Coors and Costco, where iLight had
9 prototypes. Fallon did not get those sales, and neither did
10 iLight. The idea that iLight would have gotten these sales in
11 the absence -- I think when Tim Fallon was asked about this in
12 his deposition, he said the reference to iLight was just to
13 stir up the troops.

16:57:09 14 But what's clear is that it's just pure speculation
15 that iLight would have gotten these sales in the absence of
16 Fallon, because this very e-mail contains three examples where
17 that wasn't true.

16:57:21 18 Q. But sir, isn't it also pure speculation for you
19 to say that, if Fallon had not been able to make those accused
20 sales, that they, in turn, would have accepted some sort of
21 noninfringing alternative as you have suggested?

16:57:36 22 A. Well, we know --

16:57:39 23 Q. Sir, you do know not know whether they would
24 have accepted a noninfringing alternative, do you?

16:57:44 25 A. But we know that Bud did not choose iLight as

1 the second or third provider. They chose three providers, and
2 iLight wasn't in the top three.

16:57:53 3 Q. Let me get this straight. So you recognize
4 that iLight was specifically solicited by Anheuser-Busch to
5 submit a bid for the same projects which Fallon ultimately
6 sold the accused sales to Anheuser-Busch. You know that;
7 right?

16:58:09 8 A. Correct.

16:58:13 9 Q. So iLight was solicited, there were a couple
10 more people solicited, three I think ultimately submitted bids
11 -- iLight, Fallon and one other company. But you are saying
12 iLight didn't compete simply because Fallon ultimately got
13 chosen?

16:58:26 14 A. No, I'm saying iLight didn't compete because my
15 understanding is that Anheuser-Busch buys LED signs from three
16 companies, and iLight is not on the list. So if Fallon isn't
17 going to be chosen, I think the next logical company would be
18 the number two or the number three spot on the list.

16:58:44 19 Q. would you broaden that again?

16:58:48 20 THE COURT: Let me see. would you agree, based on the
21 language in the first paragraph of that e-mail, that at some
22 point Fallon viewed iLight as a serious competitor?

16:59:05 23 THE WITNESS: Not necessarily. I've seen those kinds
24 of e-mails where they say, you know, they are trying to fire
25 up the group. I don't think it's the case that Fallon would

1 have believed that, if we're not a competitor, iLight would
2 have gotten the business.

16:59:21 3 THE COURT: That wasn't my question. The question is
4 whether you perceived them as a competitor.

16:59:31 5 THE WITNESS: As some level of competitor, yes. As a
6 default competitor who would have won the sales in the
7 absence, yes.

16:59:38 8 BY MR. PRICE:

16:59:41 9 Q. I've got a follow-up. would you pull up TX 51,
10 please. And go to the last page.

16:59:49 11 Now, in preparing for your report, you view various --
12 could we turn that the other way, please. In preparing your
13 report, you viewed various forecasts and other financial
14 documents that were provided to you by Fallon; correct?

17:00:01 15 A. Correct.

17:00:03 16 Q. This, in particular, is the last page of the
17 fiscal year 2006 forecast. In particular, I want to direct
18 your attention to Line 79. This is comments that were made to
19 that forecast. will you blow that up for me on 79, please.

20 Right there it says:

17:00:29 21 R.J.R. is looking at Fallon's LED unit. We will be
22 producing a prototype and competing against iLight. Too soon
23 to add to forecast.

17:00:36 24 Now, we've already talked about this. In fact,
25 iLight, in its collaborative relationship with Image works, it

1 got that business with R.J.R., did it not?

17:00:49 2 MR. LIPSHIE: Your Honor, could we approach briefly?

17:00:53 3 (Whereupon, a bench conference was held, out of the

4 hearing of the jury, to wit:)

17:00:56 5 MR. LIPSHIE: What is the date of this document?

17:00:58 6 MR. PRICE: It was made in 2005. It was a fiscal year

7 2006 forecast.

17:01:05 8 MS. MCMILLION: 2006. It would have been after the

9 date of the hypothetical negotiations.

17:01:09 10 THE COURT: He's asking a question about --

17:01:14 11 MR. LIPSHIE: Can we just ask if he knows what it is,

12 let him lay a foundation.

17:01:18 13 MR. PRICE: This question is not going to the

14 forecast. It's part of the sales forecast. The question is

15 going to what he knows about the competition.

17:01:34 16 THE COURT: Overruled.

17:01:34 17 (Conclusion of bench conference.)

17:01:34 18 BY MR. PRICE:

17:01:36 19 Q. If I may direct your attention once again to

20 Line 79 on the last page of the fiscal year 2006 sales

21 forecast. In those comments, Fallon states:

17:01:49 22 R.J.R. is looking at Fallon's LED unit. We will be

23 producing a prototype and competing with against iLight. Too

24 soon to add to forecast.

17:01:57 25 Now, in fact, iLight and Image Works in their

1 collaborative relationship -- they got that business, did they
2 not?

17:02:00 3 A. Yes, they did.

17:02:03 4 Q. Fallon did not get the business, at least at
5 that time?

17:02:04 6 A. That's correct.

17:02:07 7 Q. So is it your opinion then that Fallon was not
8 a competitor, was not competing, against iLight, despite what
9 they say here?

17:02:14 10 A. At the time of the hypothetical negotiation,
11 the joint venture with Image Works did not exist. And as a
12 predominantly manufacturer of architectural neon, I do not
13 believe that Fallon would have considered iLight a serious
14 contender. The relationship with Image Works made them a
15 serious contender, because it gave them access to design and
16 to relationships, but that was not known at the time of the
17 hypothetical negotiation.

17:02:43 18 Q. I think you are familiar with the book of
19 wisdom, are you not?

17:02:45 20 A. I am.

17:02:48 21 Q. And under the book of wisdom, persons in your
22 shoes are not limited purely to looking at what was going on
23 in January 2005 and behind. You don't have to put on your
24 blinders, do you?

17:03:00 25 A. You do not, unless there is evidence indicating

1 that it's counter to what would have been expected. And I
2 would argue, at the time of the hypothetical negotiation, in
3 negotiating a license with Fallon for access to the sign
4 industry, it would in some sense have precluded a joint
5 venture with Image Works.

17:03:23 6 what's clear is that iLight needed access to the sign
7 market, which if it got it by licensing Fallon, it wouldn't
8 have needed to go to Image Works for such a relationship.

17:03:40 9 Q. I ask you again. Fallon did not get R.J.R.'s
10 business, did they not?

17:03:42 11 A. They did not.

17:03:45 12 Q. Would you, therefore, consider that Fallon was
13 not a competitor with iLight and Image Works for the R.J.R.
14 business?

17:03:52 15 A. The same answer. That would not have been
16 known at the time of the hypothetical negotiation, and it
17 could not have been anticipated, and is not an appropriate
18 application of the book of wisdom, because the hypothetical
19 negotiation itself was, in fact, a negotiation for iLight to
20 get access to the sign market.

17:04:44 21 Q. I don't think we're going to get on the same
22 page here, so let's move on.

17:04:49 23 THE COURT: No editorial comments. Just ask your
24 questions.

17:04:51 25 MR. PRICE: Thank you, Your Honor.

17:04:51 1 BY MR. PRICE:

17:04:55 2 Q. You testified, Mr. Degen, that it was your,
3 quote, understanding that every asserted claim of the patent
4 requires reflective sidewalls, and that Fallon redesigned its
5 products in 2008 to remove its sidewalls, didn't you?

17:05:09 6 A. That's correct. That's my understanding.

17:05:11 7 Q. You weren't here when Dr. Roberts testified at
8 trial, were you?

17:05:13 9 A. I was not.

17:05:16 10 Q. Now, are you aware that in his supplemental
11 expert report and in his testimony here in court he testified
12 that those redesigned signs do have sidewalls in part and that
13 they do, in fact, infringe?

17:05:32 14 A. I am aware that the Bowtie itself has
15 sidewalls, but the lettering portion does not have sidewalls
16 exactly.

17:05:42 17 Q. The red Bowtie portion on that Budweiser sign
18 right there, that has sidewalls; does it not?

17:05:44 19 A. Again, that's my understanding, yes.

17:05:46 20 Q. And you are not here suggesting that the entire
21 sign has to have sidewalls to be infringing, are you?

17:05:50 22 A. No.

17:05:53 23 Q. Okay. So if the jury were to disagree with you
24 and agree with Dr. Roberts and find this sign is redesigned
25 -- the sign to be infringing, then your retooling costs

1 estimate would no longer hold?

17:06:12 2 A. No, that's a little confused.

17:06:15 3 Q. I will be glad to rephrase. The whole basis
4 for your retooling costs damages estimate assumes that the
5 redesigned products do not infringe. Isn't that's correct?

17:06:32 6 A. Not quite. It assumes that the product could
7 be made as the letters are currently made without sidewalls.
8 Not that exact product, but that a product could be made that
9 would not infringe, just as the lettering section was done.

17:06:50 10 Q. Well, no, you specifically said, and you quote,
11 that Fallon redesigned its products in 2008 to remove the
12 sidewalls, that they actually did it in 2008?

17:07:01 13 A. Correct. And they did with respect to the
14 lettering portion of that sign.

17:07:05 15 Q. Oh. So only a portion of the sign, not the
16 sign in its entirety?

17:07:09 17 A. That's my understanding, yes.

17:07:12 18 Q. So once again, you are not suggesting that if
19 only a part of the sign has sidewalls, that that makes it
20 noninfringing, are you?

17:07:20 21 A. No. To be noninfringing, they would have to
22 extend their redesign to the entire sign beyond the letters.

17:07:26 23 Q. Which they haven't done, have they?

17:07:28 24 A. Not that I'm aware of.

17:07:30 25 Q. So if the jury were to agree with Dr. Roberts

1 that these redesigned signs have sidewalls in part and they
2 do, in fact, infringe, then they don't need to be applying the
3 retooling cost damages estimate, do they?

17:07:45 4 A. That's incorrect. If the jury believes that
5 the redesign that was applied to the letters could be applied
6 to the entire sign, then they can award the retooling cost
7 numbers.

17:08:03 8 Q. I'm not sure I'm following you, but I will
9 leave it at that.

17:08:09 10 In any event, Mr. Degen, you assert that, quote, at
11 the time of the hypothetical negotiation, which in this case
12 would be January 2005, Fallon could have simply retooled its
13 manufacturing facilities to make its current noninfringing
14 design, don't you?

17:08:22 15 A. That's my understanding.

17:08:26 16 Q. But in fact, Fallon waited over three years
17 after the hypothetical negotiations, as well as two years
18 after this lawsuit was filed, to retool and redesign its
19 signs, didn't they?

17:08:41 20 A. That's correct.

17:08:43 21 Q. And in fact, as you just noted, they didn't
22 even remove all of the sidewalls, only a part of them?

17:08:47 23 A. That's correct.

17:08:49 24 Q. Now, you further assert that the, quote, cost
25 of retooling would have been approximately \$30,000 to \$40,000,

1 and that this is the amount that Fallon would have been
2 willing to pay on the eve of infringement, don't you?

17:09:04 3 A. No, I say it's my understanding that that's the
4 cost of retooling. That's not an assertion on my part. But
5 to the extent that does represent the cost of retooling, my
6 assertion is that's what they would be willing to pay.

17:09:18 7 Q. On the eve of infringement?

17:09:19 8 A. Correct.

17:09:25 9 Q. Now, this whole hypothetical negotiation -- you
10 are supposed to determine what a reasonable business person
11 would negotiate; correct?

17:09:34 12 A. Correct.

17:09:38 13 Q. So would a reasonable business person spend
14 \$1.5 million in legal fees to pursue a lawsuit when they could
15 simply do a \$40,000 retooling?

17:09:41 16 MR. LIPSHIE: Your Honor, --

17:09:42 17 THE COURT: Sustained.

17:09:44 18 Ladies and gentlemen of the jury, disregard the last
19 statement of counsel.

17:09:46 20 MR. PRICE: May I approach?

17:09:56 21 THE COURT: Yes, sir.

17:09:59 22 MR. PRICE: Lincolnshire, the venture capital behind
23 them, produced a document which shows last fall they estimated
24 \$1.5 million in legal fees for this lawsuit. He is taking the
25 position that a reasonable business person would have simply

1 retooled for \$30,000 to \$40,000. It makes no business sense
2 to spend \$1.5 million for litigation, when you could have only
3 retooled for \$30,000 to \$40,000. And I've got a document to
4 back it up if he doesn't agree.

17:10:31 5 MR. LIPSHIE: He hasn't seen it.

17:10:32 6 MR. PRICE: I'll gladly show it.

17:10:35 7 MR. LIPSHIE: He needs to be careful. If you want to
8 open the door on an insurance motion, we'll get into how much
9 these people are paying their attorneys to have their own
10 lawsuit.

17:10:48 11 MR. PRICE: It has nothing to do with it.

17:10:49 12 MR. LIPSHIE: I think it has plenty to do with it.

17:10:52 13 THE COURT: The question is whether --

17:10:55 14 MR. PRICE: My question, is it a reasonable business
15 question. The estimate is \$1.5 million.

17:11:01 16 MR. LIPSHIE: Your Honor, the prejudicial value
17 clearly outweighs any probative value.

17:11:08 18 MR. PRICE: That's not the point. He's making an
19 assessment based on what reasonable business people do.

17:11:23 20 MR. LIPSHIE: What are you offering it for, if not to
21 prove the truth of the matter asserted?

17:11:29 22 MR. PRICE: Going straight to the assessment of what a
23 reasonable business person would do on a hypothetical
24 negotiation. My position is that a reasonable business person
25 would not -- if he could retool for \$30,000, 40,000 three

1 years ago as he suggests, then why the heck would you then
2 proceed forward on a \$1.5 million in litigation.

17:11:47 3 MR. LIPSHIE: He thinks legal fees ought to be under
4 the Georgia-Pacific cases, Your Honor, and they are not. He
5 has made them so.

17:11:57 6 THE COURT: How much longer are you going with this?

17:12:04 7 MR. PRICE: This is it.

17:12:06 8 MR. LIPSHIE: Is this the same document you tried to
9 get in yesterday and couldn't?

17:12:12 10 MR. PRICE: It's a different document, Sam. I didn't
11 need the other document.

17:12:20 12 MR. LIPSHIE: This will open up a can of worms. We'll
13 get into their legal fees too, and motivation. That is an
14 issue for Your Honor, legal fees.

17:12:42 15 MR. PRICE: It's not going to legal fees. It's going
16 into hypothetical negotiation whether a reasonable prudent
17 business person could spend \$1.5 million in litigation when
18 they could simply retool for \$30,000 or \$40,000.

17:12:54 19 THE COURT: Counsel, would you agree that he has
20 configured the numbers of all of the factors, the prior seller
21 pay off. Has nothing to do with this.

17:13:11 22 MR. PRICE: I agree. All I'm focusing on is --

17:13:14 23 THE COURT: What he calculated from May of 2009 has
24 nothing to do with this.

17:13:15 25 MR. PRICE: I agree. And the only reason I would

1 focus on this document at all would be the \$1.5 million
2 estimate of iLight litigation and legal fees.

17:13:26 3 THE COURT: Well, it's got a Bates stamped number on
4 this.

17:13:29 5 I take it, Sam, this is one of you all's documents?

17:13:32 6 MR. LIPSHIE: Yes, sir. Was it was produced by
7 Lincolnshire, a nonparty to this litigation. Has to do with a
8 capital associated with financing --

17:13:41 9 MR. PRICE: The venture capital fund behind them. The
10 president of Fallon is the senior director of Lincolnshire.

17:13:49 11 THE COURT: Yes, but I think you have to show that
12 that was a decision made by iLight -- I mean, by Fallon.

17:13:54 13 (Conclusion of bench conference.)

17:14:00 14 THE COURT: Ladies and gentlemen of the jury, I'm
15 going to have to excuse you for a few minutes. Please don't
16 discuss the case amongst yourselves until you receive all of
17 the evidence, the argument of counsel and the charge of the
18 Court.

17:14:09 19 Is there any juror who is going to be seriously
20 inconvenienced if we go about another 20 minutes? Anybody?
21 If so, please let me know. All right. If we can't resolve
22 this matter shortly, we're going to adjourn for the day. All
23 right.

17:14:52 24 (Jury out.)

17:15:04 25 THE COURT: I'm not really sure I -- this apparently

1 was generated in discovery.

17:15:07 2 MR. PRICE: Yes.

17:15:09 3 THE COURT: There have been some references to these
4 different entities, but I'm a little uncertain as to the
5 relationship -- if any, the exact relationship between these
6 various entities, to understand what this means.

17:15:24 7 MR. PRICE: I believe the evidence in the record, and
8 I'm sure Mr. Kittredge will correct me if I misstate this --
9 is that Lincolnshire, as a venture capital fund -- there is a
10 fund at Lincolnshire which essentially owns what is Fallon
11 Visual Products. And Fallon Luminous is a subsidiary of
12 Fallon Visual products. Is that a correct statement?

17:15:49 13 MR. KITTREDGE: Lincolnshire is a private equity
14 company, Your Honor. They own a number of companies.
15 Somewhere down the chain is Fallon Luminous Products.
16 Lincolnshire is not a party to this lawsuit. This document
17 was produced under separate subpoena. And it looks clear to
18 me like what they are trying to use is information that looks
19 like attorney-client privilege and attorney work product
20 information and was inadvertently disclosed, and they should
21 not be allowed to use it with this witness or anyone else.

17:16:19 22 MR. PRICE: I do not see any privileged information in
23 there. What they have is in there is an estimate of fees.

17:16:24 24 MR. KITTREDGE: For a specific lawsuit. And that's
25 clearly work product.

17:16:25 1 THE COURT: Well, it seems to me sort of like a cross
2 benefit analysis of different courses of conduct.

17:16:29 3 MR. PRICE: Exactly.

17:16:35 4 THE COURT: But my concern is what -- it may represent
5 the committee's view, but I think you've got to look at it
6 from Fallon's -- whether Fallon would make the same decision.

17:16:47 7 MR. KITTREDGE: Not only that, Your Honor, the
8 question he is asking is, would a reasonable person decide to
9 do this back in 2004. This is dated 2008. It's not Fallon.
10 It's four years later. It's probably work product and
11 privileged. It's not a document that anybody is here to
12 sponsor. It's just entirely inappropriate.

17:17:07 13 MR. PRICE: Actually, what he has testified to is
14 that, way back at the beginning, in January of 2005, that they
15 could have retooled for \$30,000 or \$40,000, when, in fact,
16 they didn't even redesign until three years later in 2008.
17 And Doug Begen, President of Fallon, is Senior Director of
18 Lincolnshire. These guys are all intertwined with each other.
19 That's why they are making fee estimates.

17:17:33 20 MR. KITTREDGE: There's no witness to sponsor this
21 document, Your Honor. It's four years after the hypothetical
22 negotiation he is talking about. Everything else counsel just
23 said, he has already crossed him very effectively, Your Honor.
24 This is a document that there is nobody to sponsor. And we
25 don't even know what it is. And he shouldn't be able to put

1 it in front of this witness, in front of this jury.

17:17:57 2 MR. PRICE: Your Honor, at the end of the day, the
3 hypothetical negotiation is what a reasonable business person
4 could do.

17:18:04 5 THE COURT: well, I think what you could -- the only
6 -- a fair question, in light of what's being pursued, and --
7 is -- I'm not sure you can use that document. I don't think
8 it has been authenticated. It's from a third party. It's
9 dated 2008. And it could be backward-looking in terms of
10 forward-looking, which you do when you try and formulate a
11 reasonable surety rate. And the litigation didn't come until
12 2006. So I'm not sure if he's talking about a decision in
13 January of 2005, that litigation in 2006 --

17:19:01 14 MR. PRICE: And they didn't redesign until 2008,
15 either, but this witness has taken the position they could
16 have done it back in 2005.

17:19:08 17 MR. KITTREDGE: He is not taking the position. He
18 says, I was informed of that. And counsel has already crossed
19 him, you don't know, you have only been informed.

17:19:21 20 THE COURT: well, he testified that he -- to my
21 recollection, he testified that he was aware they didn't do
22 the product until 2008. He said he was aware of that.

17:19:32 23 MR. KITTREDGE: That's established, very effectively.

17:19:37 24 THE COURT: If the agreement is -- and I think both
25 experts agree that the issue is what would you have done in

1 January of 2005. And if that's the -- if they agreed that
2 that is the standard by which you evaluate this, I don't know
3 that they can use a post-event to establish the basis -- the
4 reasonable projection.

17:19:58 5 MR. PRICE: There is a lot of case law on what they
6 call the Book of Wisdom, Your Honor. The Book of Wisdom says
7 you don't have to put blinders on and not look at anything
8 past January of 2005.

17:20:15 9 THE COURT: He gave his justification as to why he
10 thought that was an exception to the Book of Wisdom.

17:20:18 11 MR. KITTREDGE: Your Honor, we can't even tell what
12 this document --

17:20:20 13 THE COURT: Well, I think that document is going out.
14 The only issue that may be relevant is whether -- how would
15 you evaluate litigation costs as part of the formula of
16 deciding whether you want to arrive at a license fee. I think
17 that's a legitimate question.

17:20:42 18 MR. PRICE: Would you say that again? I want to make
19 sure I don't run afoul.

17:20:46 20 THE COURT: Well, I don't want to ask your questions
21 for you.

17:20:50 22 MR. PRICE: No, I know. I don't want to ask something
23 that's going to put us right back here again.

17:20:55 24 THE COURT: I think he is entitled to ask, if there is
25 this recognized exception to the book of wisdom, that you can

1 consider subsequent events. He can ask him what the impact of
2 this litigation and the litigation cost for a three year
3 period would have on his calculation of a fee. If he has one.
4 I don't know what he's going to say, but he can ask him.

17:21:18 5 MR. KITTREDGE: I don't think it's a proper question,
6 because the whole hypothetical negotiation assumes both
7 parties agree there is infringement, the patent is invalid.
8 The litigation is not relevant to that. If that's Your
9 Honor's decision, I will sit down.

17:21:35 10 THE COURT: But the thing is, in 2005 they started
11 being served with notice that there was a consideration of
12 patent infringement.

17:21:40 13 MR. PRICE: That's correct.

17:21:42 14 THE COURT: So it would have been -- it's not that
15 distant a factor to consider as to what the cost and the
16 impact of patent infringement litigation would be on this
17 issue of \$30,000 to \$40,000.

17:21:56 18 MR. KITTREDGE: That's part of the assumption that's
19 built into the hypothetical negotiation. I don't have
20 anything more to say.

17:22:07 21 THE COURT: Well, I think he can ask that question.
22 Now, how he's going to address it, I have no idea.

17:22:11 23 MR. PRICE: If I can confer with co-counsel, we may
24 decide whether or not that's worthwhile. There is one other
25 line of questioning which I may or may not go down. I think

1 if you will give me a few minutes, we may decide to --

17:22:18 2 THE COURT: well, I'm kind of concerned about the

3 jury. I think they are about worn out.

17:22:23 4 MR. PRICE: I know. If you will give me two minutes,

5 we'll wrap this up. Thank you.

17:23:43 6 THE COURT: we'll be in recess for two minutes.

17:23:43 7 (Recess.)

17:23:45 8 THE COURT: Is the issue resolved?

17:23:47 9 MR. PRICE: We're going to move on from that issue. I

10 do have one last line of questions on a different issue.

17:23:52 11 THE COURT: How much longer are you going to question

12 this witness?

17:23:55 13 MR. PRICE: I'm guessing about 15 minutes.

17:23:56 14 THE COURT: Do you have any redirect?

17:23:58 15 MR. LIPSHIE: Not right now, Your Honor.

17:24:01 16 THE COURT: well, I'll tell you what. I think the

17 jury is tired. I'm going to send them home, and we'll come

18 back.

17:24:07 19 MR. PRICE: That's fine, Your Honor. This won't take

20 long in the morning.

17:24:10 21 THE COURT: I don't know what you are going to ask,

22 and I don't know if that impacts his projection. I usually

23 double it. I will go about thirty minutes --

17:24:20 24 MR. PRICE: A handful of questions on one page.

17:24:21 25 THE COURT: -- about six o'clock.

17:24:49 1 Bring the jury in, Mr. Marshal.

17:24:52 2 (Jury in.)

17:25:08 3 THE COURT: All right, ladies and gentlemen of the
4 jury. We're going to call it a day. I'm going to ask you to
5 please come back tomorrow shortly before 9:00, we'll try and
6 get started promptly. I'm concerned that there will be
7 additional questioning that may take us beyond your patience.

8 So if you will hand your notepads to the Marshal, he
9 will take custody of them until you return in the morning.
10 And you can leave your notebooks on the chairs and the Marshal
11 will collect them and have them there for you tomorrow.

17:25:41 12 So please don't discuss the evidence amongst
13 yourselves until you receive all of the evidence, the argument
14 of counsel, and the charge of the Court. You are free to go.

17:26:09 15 (Jury out.)

17:26:17 16 THE COURT: You all can have a seat. Counsel, I have
17 a draft of the jury instructions. It's my belief that it has
18 incorporated most of the -- what you all have agreed upon, but
19 there may be some additional requirements. So to move things
20 along, I thought I would give you what we've got now, and I
21 know there will be some additional language on infringement.
22 Are there any other matters?

17:26:54 23 MR. KITTREDGE: Could we talk briefly about the
24 schedule, Your Honor?

17:26:58 25 THE COURT: Well, as I understand it, for the defense,

1 we've got to finish this witness, we've got a short
2 deposition, and they have rebuttal of Mr. Roberts.

17:27:10 3 MR. KITTREDGE: Do we get to close tomorrow afternoon?

17:27:12 4 THE COURT: It depends on when we finish the jury
5 instructions. If we can -- if we finish around 11:00
6 tomorrow, we'll have a jury instruction conference, and we'll
7 just see how it goes. I will tell the jury to come back. If
8 we finish around 11:00, I will ask the jury to come back
9 around 1:30. And if we have the jury instructions finished,
10 then we'll have closing arguments tomorrow. If it takes
11 longer to work out the jury instructions, I will tell them to
12 come back tomorrow morning, Wednesday morning.

17:27:45 13 MR. KITTREDGE: One other issue besides the jury
14 instructions is the verdict form. There is some dispute on
15 that.

17:27:54 16 THE COURT: Well, I've been working on other matters.
17 You all look at the verdict form and see if there has been an
18 agreement. See if it reflects your agreement.

17:28:04 19 MR. VEZEAU: We'll work with that, Your Honor.

17:28:06 20 MR. KITTREDGE: We filed something today with the
21 Court, Your Honor, that points out the current differences.
22 We'll see what we can do. The current differences are pretty
23 extreme.

17:28:18 24 THE COURT: Well, if they are extreme, then --

17:28:21 25 MR. KITTREDGE: I'm afraid you may have to deal with

1 this. We're pretty far apart. Maybe we'll have some great
2 progress this evening.

17:28:31 3 MR. VEZEAU: We haven't yet, of course, Your Honor,
4 seen what they filed, so we can't comment.

17:28:34 5 THE COURT: I will encourage everybody to look and
6 talk. And if you have talked ahead of time, then we'll be
7 able to maybe make the issues a little clearer. We're in
8 recess.

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REPORTER'S CERTIFICATE

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I, Peggy G. Turner, Official Court Reporter for
the United States District Court for the Middle
District of Tennessee, with offices at Nashville, do
hereby certify:

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That I reported on the Stenograph machine the
proceedings held in open court on April 27, 2009, in the
matter of ILIGHT V. FALLON, Case No. 2:06-0025; that said
proceedings in connection with the hearing were reduced to
typewritten form by me; and that the foregoing transcript,
Pages 717 through 969, is a true and accurate record of said
proceedings.

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This the 17th day of May, 2009.

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S/Peggy G. Turner, RPR
Official Court Reporter

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